

# Guide to support the application of the Auditor-General's Code of Ethics

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# About the *Guide to support the application of the Auditor-General's Code of Ethics*

## Introduction

All auditors must be familiar with and abide by the *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board (hereafter referred to as PES 1 or the international Code).

The Auditor-General of New Zealand is responsible for the audits of every public entity in New Zealand.<sup>1</sup> In fulfilling that role, the Public Audit Act 2001 (the Act) places expectations on the Auditor-General that are not adequately met by the requirements of PES 1. PES 1 is based on an international Code for the private sector.

For this reason, auditors who carry out work on behalf of the Auditor-General are required to apply the [Auditor-General's Code of Ethics](#) (the Auditor-General's Code).

This *Guide to support the application of the Auditor-General's Code of Ethics* (the Guide) has been prepared to help auditors apply the [Auditor-General's Code of Ethics](#) by detailing how the Auditor-General's requirements fit with or supplement PES 1.

The Guide assumes, and the Auditor-General expects, that auditors will be familiar with and refer back to PES 1. It is important to emphasise that the requirements of the Auditor-General's Code **exceed the requirements of PES 1**.

## What entities does the Auditor-General's Code apply to?

As well as being the auditor of all public entities, the Auditor-General is also the auditor of a few entities that are not public entities, under section 19 of the Act. The Guide also applies to any work carried out on behalf of the Auditor-General for a "section 19 entity".

An overseas subsidiary of a public entity is not a public entity and the Auditor-General cannot directly regulate the activities of the auditor of an overseas subsidiary. The Auditor-General expects the group auditor to issue instructions that will ensure that important aspects of the Auditor-General's auditing standards will be met by the auditor of the overseas subsidiary.

Where the auditor of the overseas subsidiary is part of the group auditor's network firm, the subsidiary auditor shall comply with the Auditor-General's auditing standards (including the requirements of the Auditor-General's Code) because the group auditor must be able to assert compliance with the Auditor-General's auditing standards in forming their opinion on the group financial statements and performance information (where relevant).

<sup>1</sup> Public entity is defined in section 5 of the Public Audit Act 2001.

## This Guide must be read alongside PES 1

The Guide must be read alongside, and is therefore structured for ease of reference back to, the relevant text of PES 1:

- [Introductory sections in PES 1](#)
- [Part 1 of PES 1 – Complying with the Code, fundamental principles, and conceptual framework](#)
- [Part 2 of PES 1 – Assurance practitioners performing professional activities pursuant to their relationship with the firm](#)
- [Part 3 of PES 1 – Application of the code, fundamental principles and conceptual framework](#)
- [Part 4A of PES 1 – Independence for audit and review engagements](#) and
- [Glossary and Effective date in PES 1.](#)

Within each of these sections, the Auditor-General's expectations are explained in three ways:

- **Commentary** explains the Auditor-General's overall approach or provides context.
- **Requirements** are exactly that.
- **Application material** provides further guidance on the Auditor-General's requirements.

The paragraph numbering follows the paragraph numbering in PES 1. For example:

- paragraph AG 1.1 of the Guide follows paragraph 1 of PES 1;
- paragraph AG 100.5 A1 of the Guide follows paragraph 100.5 A1 of PES 1; and
- paragraphs AG R100.8 A1.1 and AG R100.8 A1.2 of the Guide follow paragraphs R100.8 and 100.8 A1 of PES 1.

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# Introductory sections in PES 1

## Purpose of the Code

### Auditor-General's commentary

AG 1.1 PES 1 is scoped to apply to “assurance practitioners”. The glossary to PES 1 describes an assurance practitioner as “a person or organisation ... appointed or engaged to undertake assurance engagements or related services”.

As discussed in AG 3 below, an “assurance engagement” is scoped narrowly in PES 1. A significant proportion of the work carried out by the Auditor-General does not meet the definition of an assurance engagement under PES 1.

However, the Auditor-General considers that all of the work carried out on their behalf under sections 15 to 19 of the Public Audit Act 2001 should be considered an assurance engagement for the purposes of the Auditor-General's Code. Sometimes the requirements of the Auditor-General's Code and this Guide exceed the minimum requirements of PES 1.

Therefore, for the purpose of the Auditor-General's Code and this Guide:

- any references to “assurance engagement” are to be applied to any work carried out under sections 15 to 19 of the Public Audit Act 2001; and
- any references to “assurance practitioners” in PES 1 are to be applied to any individuals carrying out work under sections 15 to 19 of the Public Audit Act 2001 for, or on behalf of, the Auditor-General, despite the fact that they might not be carrying out work that meets the definition of an assurance engagement in PES 1.

In this document:

- the term “work carried out on behalf of the Auditor-General” means work carried out under sections 15 to 19 of the Public Audit Act 2001; and
- the term “individuals working for, or on behalf of, the Auditor-General” means individuals carrying out work for, or on behalf of, the Auditor-General under sections 15 to 19 of the Public Audit Act 2001.

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AG 1.2 AG 1.1 above requires that references to assurance practitioners in PES 1 are to be applied to all individuals working for, or on behalf of, the Auditor-General.

The Auditor-General's Code recognises that some individuals working for, or on behalf of, the Auditor-General might belong to a professional body other than that which regulates the accounting profession. The specific requirements of the Auditor-General's Code and this Guide shall be applied by those individuals working for, or on behalf of, the Auditor-General and who are not members of the accountancy profession in addition to any professional standards that might be determined by any other professional body of which they are members.

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**Auditor-General's commentary**

AG 3 PES 1 is scoped to apply to “assurance engagements”. The glossary to PES 1 describes an assurance engagement as “An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users ... about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).”

In short, an assurance engagement is a process that involves the provision of a reasonable assurance conclusion (an audit) or a limited assurance conclusion (a review). However, a significant proportion on the work carried out on behalf of the Auditor-General is not designed to reach a conclusion that gives reasonable or limited assurance.

For the purposes of the Auditor-General's Code and this Guide, any references to an assurance engagement in PES 1 are to be applied to all work carried out on behalf of the Auditor-General under sections 15 to 19 of the Public Audit Act 2001. This is despite the fact that the work might not meet the definition of an assurance engagement in PES 1.

**How the Code is structured**

**Auditor-General's commentary**

AG 4 The third bullet point under paragraph 4 refers to “assurance services”. The glossary to PES 1 describes assurance services as comprising “any assurance engagements performed by an assurance practitioner”. Assurance services is the term used in PES 1 to describe one or more assurance engagements.

As explained in paragraph AG 3 above, a significant proportion of the work carried out on behalf of the Auditor-General does not meet the PES 1 definition of an assurance engagement. However, for the purposes of the Auditor-General's Code and this Guide, any references to assurance services in PES 1 are to be applied to all work carried out on behalf of the Auditor-General. This is despite the fact that the work might not meet the definition of an assurance service in PES 1.

The fourth bullet point under paragraph 4 above refers to Part 4B of PES 1. Part 4B does not apply to the Auditor-General.

**How to use the Code**

The fundamental principles, independence, and conceptual framework

**Auditor-General's commentary**

AG 6 Refer to the Auditor-General's Code and to paragraphs AG R120.5 A6.1 to AG R120.5 A6.2 of this Guide for an overview of the “reasonable and informed third party test” by the Auditor-General.

### Auditor-General's commentary

AG 9            The second bullet point under paragraph 9 refers to “Audit or review clients”. The term “client” is frequently used in standards regulating assurance engagements and refers to the entity or person subject to assurance procedures. However, it is recognised that the work carried out by assurance practitioners, and the resulting reports, are intended for users who have no role in the management or governance of the entity. In the context of the Auditor-General, this is Parliament and the citizens of New Zealand.

## New Zealand preface

### Auditor-General's commentary

The Public Audit Act 2001 places expectations on the Auditor-General that exceed the minimum requirements of PES 1, particularly in independence.

As a matter of principle, the Auditor-General's independence requirements apply *equally* to all public entities and to all work carried out by, or on behalf of, the Auditor-General. In practice, this means that the requirements in PES 1 that apply to “public interest entities” shall be applied to all public entities, unless the Auditor-General requires a different standard to be applied. The two main exceptions to this principle are:

- (a) Under section 540 *Long association of personnel (including partner rotation) with an audit client*, the Auditor-General recognises the distinction between public entities that are “public interest entities” and other public entities. The Auditor-General's rotation requirements are specified in section 540.
- (b) Under subsection 601 *Accounting and bookkeeping services*, the Auditor-General recognises that the provision of temporary accounting assistance or conducting compilation engagements is appropriate, in the interests of accountability, for small public entities within the parameters specified by the Auditor-General in subsection 601.

The Auditor-General's expectations are further explained within the relevant parts of the Guide.

## New Zealand scope and application

### Auditor-General's commentary

AG RNZ1.1        The Auditor-General and those who carry out work on their behalf shall comply with this Guide from 1 July 2024.

### Auditor-General's requirement

**AG RNZ1.2**        The Auditor-General's Code recognises that some individuals working for, or on behalf of, the Auditor-General might belong to a professional body other than that which regulates the accounting profession. The specific requirements of the Auditor-General's Code and this Guide shall be applied by those individuals working for, or on behalf of, the Auditor-General and who are not members of the accountancy profession in addition to any professional standards that might be determined by any other professional body of which they are members.

# Part 1 – Complying with the Code, fundamental principles, and conceptual framework

## Section 100: Complying with the Code

### Requirements and Application Material

#### Auditor-General's commentary

- AG 100.5 A1 “Auditor-General’s requirements” should be read in conjunction with the relevant paragraphs of PES 1 and are denoted by bold paragraph numbers starting with “AG”. The requirements of the Auditor-General are different and not less than the requirements of PES 1.
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- AG 100.5.A2 “Auditor-General’s application material” provides further guidance on the Auditor-General’s requirements. The Auditor-General’s application material should be read in conjunction with the relevant paragraphs of PES 1 and is denoted by non-bold paragraph numbers starting with “AG”.

### Breaches of the Code

#### Auditor General's requirements

- AG R100.8 A1.1** When those who carry out work on behalf of the Auditor-General identify a breach of the Auditor-General’s Code and this Guide, they shall evaluate the significance of the breach and its effect on the assurance practitioner’s ability to comply with the fundamental principles, as required by paragraph R100.8. In addition, they shall refer the breach to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG will determine what action should be taken in consultation with the affected parties, where such consultation is appropriate.
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- AG R100.8 A1.2** Any breach of the Auditor-General’s Code and this Guide that might compromise the reputation of the Auditor-General will be treated as a serious breach of the terms of employment that apply to staff of the Auditor-General or a serious breach of contract for those who carry out work on behalf of the Auditor-General under contract.

## Section 110: The fundamental principles

### General

#### Auditor-General's application material

AG 110.1 A1(a) In addition to paragraph 110.1 A1(a) the Auditor-General's Code describes integrity as *"being straightforward and honest in all statutory and professional relationships"*.

#### Auditor General's requirement

**AG R110.1 A1(b)(i)** The Public Audit Act 2001 places expectations on the Auditor-General that exceed the minimum requirements of PES 1, particularly in the application of the fundamental principle of objectivity (audit independence).  
Those who carry out work on behalf of the Auditor-General shall comply with the Auditor-General's expectations about how the fundamental principle of objectivity is to be applied, as specified in the Auditor-General's Code and in this Guide.

#### Auditor-General's application material

AG 110.1 A1(b)(ii) In addition to paragraph 110.1 A1(b) the Auditor-General's Code describes objectivity as *"not compromising professional judgements for any reason, including bias, conflict of interests, or the undue influence of others"*.

AG 110.1 A1(c) In addition to paragraph 110.1 A1(c) the Auditor-General's Code describes professional competence and taking due care as:

- *"attaining and maintaining professional knowledge and skills at the level required to carry out one's duties and functions; and*
- *acting diligently in keeping with relevant legislation and complying with the Auditor-General's Auditing Standards"*.

AG 110.1 A1(d) In addition to paragraph 110.1 A1(d) the Auditor-General's Code describes confidentiality as *"respecting the confidentiality of information acquired as a result of statutory and professional relationships"*.

AG 110.1 A1(e) In addition to paragraph 110.1 A1(e) the Auditor-General's Code describes professional behaviour as *"complying with relevant laws and regulations and avoiding any conduct that the Auditor-General or an individual and/or an organisation carrying out work on their behalf knows or should know might discredit the Auditor-General"*.

#### Auditor General's requirement

**AG R110.2 A2** In a situation where complying with one fundamental principle conflicts with complying with one or more other fundamental principles, those who carry out work on behalf of the Auditor-General shall consult with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG will determine what action should be taken in consultation with the affected parties, where such consultation is appropriate.



## Subsection 111 – Integrity

### Auditor-General's requirement

**AG R111.1** In addition to paragraph R111 the Auditor-General, and those who carry out work on their behalf, shall be straightforward and honest in all statutory and professional relationships.

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## Subsection 112 – Objectivity

### Auditor-General's requirement

**AG R112.1** In addition to paragraph R112.1, the Auditor-General and those who carry out work on their behalf shall:

- not compromise professional judgements for any reason, including bias, conflict of interests, or the undue influence of others; and
- take appropriate measures to ensure that they are seen to be objective. The appropriate measures will normally be determined by applying the reasonable and informed third party test.

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## Subsection 113 – Professional competence and due care

### Auditor-General's requirements

**AG R113.1** In addition to paragraph R113.1 the Auditor-General and those who carry out work on their behalf shall:

- attain and maintain professional knowledge and skills at the level required to carry out one's duties and functions; and
- act diligently in keeping with relevant legislation and comply with the Auditor-General's Auditing Standards.

## Auditor-General's requirements

### Technical competence

- AG R113.3.1** Technical competence is one aspect of the fundamental principle of professional competence and due care. Those who carry out work on the Auditor-General's behalf shall demonstrate technical competence that reflects their role when carrying out work on behalf of the Auditor-General. Technical competence requires those who carry out work on behalf of the Auditor-General to be responsive to the public sector environment. In particular, they shall have:
- (a) a clear understanding of the statutory mandate and role of the Auditor-General;
  - (b) a clear understanding of the statutory obligations placed on public entities that specify their purpose, the way in which they are to be managed, and their accountability requirements;
  - (c) an understanding of general issues of management and governance in the public sector that is sufficient to identify issues of effectiveness and efficiency, non-compliance with statutory obligations, waste, and a lack of probity and/or financial prudence when they are encountered;
  - (d) a capacity to adapt audit planning to the risks that result from the differing nature and purposes of public entities;
  - (e) such specialist skills as are required to form an opinion on performance information reported by a public entity (where necessary) or the ability to identify whether and which specialist skills are required; and
  - (f) the ability to report completely, but succinctly, on audit issues, audit results, and the state of the public entity.

### Behavioural competence

- AG R113.3.2** Behavioural competence is one aspect of the fundamental principle of professional competence and due care. Behavioural competence primarily relates to managing relationships with the OAG and with the public entity. Those who carry out work on behalf of the Auditor-General shall:
- (a) identify themselves with the Auditor-General, and the Auditor-General's statutory role and independence, in any communications with a public entity, Parliament, or other key groups in the public sector; and
  - (b) understand the Auditor-General's interest as the statutory auditor of all public entities in being kept informed of matters of:
    - (i) effectiveness and efficiency;
    - (ii) non-compliance with statutory obligations;
    - (iii) waste;
    - (iv) a lack of probity;
    - (v) a lack of financial prudence; and
    - (vi) other sensitive matters or issues.

- AG R113.3.3** The Auditor-General has wide powers under the Public Audit Act 2001 to request information. Some of these powers are delegated to their staff and to Appointed Auditors and their staff. These powers shall be exercised judiciously, especially in respect of sensitive or confidential information.

## Subsection 114 – Confidentiality

### Auditor-General's requirements

**AG R114.1** In addition to paragraph R114.1 the Auditor-General and those who carry out work on their behalf shall respect the confidentiality of information acquired as a result of statutory and professional relationships.

**AG R114.1 A1(c)(iv)** In addition to the current standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board, and the New Zealand Accounting Standards Board and relevant legislation, those who carry out work on behalf of the Auditor-General shall also take account of any additional requirements in the Auditor-General's auditing standards.

**AG RNZ 114.1 A1.1** Those who carry out work on behalf of the Auditor-General shall not disclose confidential information about a public entity to the public, or to a third party, without the written approval of the OAG. In a situation where the disclosure of confidential information about a public entity is considered to be appropriate, the OAG shall be consulted (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG will determine what action should be taken in consultation with the affected parties, where such consultation is considered to be appropriate.

### General requirements

**AG R114.2.1** All information obtained while carrying out work on behalf of the Auditor-General is confidential and the property of the Auditor-General. No such information shall be disclosed outside the provisions of the Auditor-General's auditing standards without the written approval of the OAG. Requests for OAG approval shall be sent to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address).

**AG R114.2.2** The information contained in evidential working papers, and associated files or documents, is the property of the Auditor-General. The Auditor-General and those who carry out work on their behalf shall take all reasonable steps to ensure the security and protection of this information from unauthorised release, damage, malicious tampering, or alteration.

**AG R114.2.3** The Auditor-General and those who carry out work on their behalf shall note that their activities in collecting personal information about individuals, and the use of that information, are subject to the Privacy Act 1993.

### Procedures for Appointed Auditors in relation to contact with the news media

**AG R114.2.4** Those who carry out work on behalf of the Auditor-General shall not speak to the news media unless they are specifically authorised to do so by the OAG. In practice, those who carry out work on behalf of the Auditor-General shall refer media queries to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address).

Those who carry out work on behalf of the Auditor-General should advise the OAG that they have been in contact with the news media as soon as it is practicable to do so.

## Auditor-General's requirements

### Procedures for Appointed Auditors in relation to public meetings

- AG R114.2.5** It is recognised that, when attending a public meeting, those who carry out work on behalf of the Auditor-General might be requested to make comment. This particularly applies in the case of the auditors of entities with public annual general meetings, such as local authorities and school boards of trustees. In this situation, even though the Chairperson might have been made aware of the auditor's obligations to the Auditor-General, it might be difficult not to respond to questions. Accordingly, those who carry out work on behalf of the Auditor-General shall take the following measures:
- (a) before the meeting they:
    - (i) shall develop a list of questions that are likely to be asked and determine those that they can answer and those that should be referred to management or those charged with governance;
    - (ii) may consult with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address); and
    - (iii) shall ensure that any questions they are not in a position to answer are referred to management or to those charged with governance.
  - (b) During the meeting, if they cannot avoid answering a question, then they shall keep to the facts and any professional opinions they have formed.

### Misuse of information

- AG R114.2.6** The private use of any information obtained when carrying out work for the Auditor-General is prohibited.

## Subsection 115 – Professional behaviour

### Auditor-General's requirement

- AG R115.1** In addition to paragraph R115.1 the Auditor-General and those who carry out work on their behalf shall comply with relevant laws and regulations and avoid any conduct that the Auditor-General or an individual and/or an organisation carrying out work on their behalf knows or should know might discredit the Auditor-General.

# Section 120: The Conceptual Framework

## Having an enquiring mind

### Auditor-General's requirements

#### General application of the reasonable and informed third party test to the fundamental principles

**AG R120.5  
A6.1**

Those who carry out work on behalf of the Auditor-General shall ensure that compliance with the fundamental principles is achieved from two perspectives:

- actual compliance; and
- perceived compliance. The reasonable and informed third party test is applied to establish whether perceived compliance has been achieved. The reasonable and informed third party test requires a high acceptable level to be met in that the third party **would likely** reach the same conclusions about compliance as the assurance practitioner.

It is important that there is no mismatch between the conclusions that are reached about compliance when assessing **actual compliance** and in applying the reasonable and informed third party test in assessing **perceived compliance**.

It is acknowledged that the proper application of the reasonable and informed third party test can only be carried out on the basis that the relevant facts and circumstances that are necessary to reach a conclusion are available to those parties who are affected by the assurance practitioner's work. Otherwise, there is a possibility that the reasonable and informed third party might form a different conclusion from the assurance practitioner, or might not be able to conclude, on compliance with the fundamental principles.

In the situation where relevant facts and circumstances are not available to those parties who are affected by the assurance practitioner's work (and where those facts and circumstances are important to the proper application of the reasonable and informed third party test), then the reasonable and informed third party test cannot be satisfied. The consequence of this situation is either:

1. that all of the relevant facts and circumstances that allow the reasonable and informed third party to form a conclusion about compliance with the fundamental principles must be made available to those parties who are affected by the assurance practitioner's work; or
2. that the action subject to the reasonable and informed third party test is not pursued.

#### Specific application of the reasonable and informed third party test to the fundamental principle of objectivity

**AG R120.5  
A6.2**

When applying the reasonable and informed third party test to the fundamental principle of objectivity, those who carry out work on behalf of the Auditor-General shall apply the requirements specified in paragraphs AG R120.15 A1.2 to AG R120.15 A1.4.

## Evaluating threats

### Auditor-General's commentary

- AG 120.7 A1.1 Paragraph AG R120.5 A6.1 requires compliance with the fundamental principles to be achieved from two perspectives, being **actual compliance** and **perceived compliance**. That paragraph directs the general application of the reasonable and informed third party test that is used to assess perceived compliance with the fundamental principles. The reasonable and informed third party test is used to assess whether a reasonable and informed third party "**would likely**" conclude that the fundamental principle has been met. "**Would likely**" is the "acceptable level" to be satisfied.
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- AG 120.7 A1.2 Paragraph AG 120.7 A1.1 establishes that the acceptable level to be achieved in applying the reasonable and informed third party test to assess compliance with the fundamental principles is the **would likely** conclude standard.
- The Public Audit Act 2001 places expectations on the Auditor-General that mean the requirements of PES 1 do not adequately meet the professional and ethical standards that are expected of the Auditor-General. The Auditor-General's requirements for applying the reasonable and informed third party test to the fundamental principle of objectivity (audit independence) are specified in paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the accompanying application material in paragraph AG 120.15 A1.5. These requirements, and the accompanying application material, are more demanding than the approach described in paragraph 120.15 A1(b) of PES 1.

## Addressing threats

### Auditor-General's requirement

- AG R120.10 A2** Those who carry out work on behalf of the Auditor-General shall not use the internal separation of activities within a firm as a safeguard to reduce the threat to compliance with the fundamental principles to an acceptable level.
- Internal separation is sometimes used by firms as a safeguard to permit different (and sometimes incompatible) activities to be carried out for an entity. An example of internal separation is where different partners and engagement teams within the same firm provide non-assurance services for an entity that is also audited by the firm.
- The internal separation safeguard can never mitigate the **perceived** compliance requirement. The perceived compliance requirement is met through the application of the reasonable and informed third party test in paragraphs AG R120.5 A6.1 and AG R120.5 A6.2.

## Considerations for audits, reviews, other assurance and related services engagements

### Auditor-General's commentary

AG 120.15 A1.1 The Public Audit Act 2001 (the Act) makes the Auditor-General an officer of Parliament. The Act also places expectations on the Auditor-General that mean the requirements of PES 1 do not adequately meet the professional and ethical standards that are expected of the Auditor-General. Audit independence is one area where the expectations placed on the Auditor-General exceed the requirements of PES 1.

### Auditor-General's requirements

**AG R120.15 A1.2** All those who carry out work on behalf of the Auditor-General shall be both independent and be seen to be independent. The perception of independence (independence in appearance) is a vital component of independence that those who carry out work on behalf of the Auditor-General shall take into account when assessing their independence. Such an assessment requires consideration of how a particular situation would "look" from the perspective of a reasonable and informed third party with publicly available information.

**AG R120.15 A1.3** Those who carry out work on behalf of the Auditor-General shall apply a more stringent test than that described in para 120.15 A1(b) of PES 1 when assessing independence in appearance. In applying the more stringent test, they shall assess whether there are **any** facts and circumstances that **might** cause a reasonable and informed third party, **informed only by publicly available information**, to conclude that a firm's, or an audit, review, or assurance team member's, integrity, objectivity, or professional scepticism has been compromised.

**AG R120.15 A1.4** In making their assessment about independence, those working on behalf of the Auditor-General shall consult with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) when uncertainty exists about an independence matter. Those consulting with the OAG shall consider the flowchart in Appendix 1 and provide the reasoning to support their recommendation.

### Auditor-General's application material

- AG 120.15  
A1.5
- The more stringent test for assessing independence in appearance is based on the following criteria:
- (a) The assessment of independence in appearance must take into account **any** facts and circumstances that are relevant to that assessment. The proper application of the reasonable and informed third party test requires an assessment of any facts and circumstances that might influence the application of the test. To limit the reasonable and informed third party test to facts and circumstances that are “so significant” is not appropriate. This is because the highly subjective term “so significant” does not establish a sufficiently high or rigorous threshold to ensure that independence in appearance is maintained. Those applying the “so significant” test are required to discount all facts or circumstances unless they meet a level of significance that exceeds “normal” significance. This interpretation can be taken from the term “so significant”. The Auditor-General and those who carry out work on their behalf are required to take account of all facts and circumstances that are relevant when assessing independence in appearance – irrespective of whether the facts or circumstances meet the “so significant” criterion.
  - (b) The assessment of independence in appearance is based on whether the reasonable and informed third party **might** conclude that integrity, objectivity, or professional scepticism has been compromised. Any element of doubt as to independence will mean that the reasonable and informed third party test fails. The independence in appearance test in paragraph 120.12.A1(b) requires that the reasonable and informed third party “would be likely to conclude” that integrity, objectivity, or professional scepticism has been compromised. The “would be likely to conclude” test is a relatively low standard in that the facts and circumstances need to be persuasive before those applying the test would be likely to conclude that integrity, objectivity, or professional scepticism has been compromised. When applying the reasonable and informed third party test to assess independence in appearance, the “would be likely to” standard shall be replaced with the “**might**” standard. In other words, any reasonable doubt must be dispelled if the test is to be met.
  - (c) The facts and circumstances that are relevant to the reasonable and informed third party test **must be publicly available**. The reason for this requirement is that the reports of the Auditor-General, in most instances, are made available to the public. If information that is influential to applying the reasonable and informed third party test is not publicly available, then the perception that the Auditor-General is not independent will remain. In this situation, the reasonable and informed third party test fails.

### Auditor-General's commentary

- AG 120.15  
A2
- Independence in appearance requires the assurance practitioner to apply the reasonable and informed third party test in a particular way, in accordance with paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the associated application material in paragraph AG 120.15 A1.5.



# Part 2 – Assurance practitioners performing professional activities pursuant to their relationship with the firm

## Section 200: Applying the conceptual framework – assurance practitioners performing professional activities pursuant to their relationship with the firm

### Auditor-General's commentary

Part 2 applies only to the Auditor-General, the Deputy Auditor-General, employees of the Auditor-General, and contracted firms or personnel who carry out a “professional activity” in connection with the operations of the Auditor-General as a public entity accountable to Parliament. Part 2 includes those:

- responsible for, or who have a role in preparing, the external accountability documents of the Auditor-General;
  - with a role in management reporting within the wider Auditor-General entity; and
  - who provide support services to the Auditor-General, such as legal support.
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# Part 3 –Application of the code, fundamental principles and conceptual framework

## Section 300: Applying the conceptual framework

### Introduction

#### Auditor-General's commentary

- AG 300.1 The Public Audit Act 2001 places expectations on the Auditor-General that exceed the minimum requirements of PES 1, particularly in the area of independence. Those expectations apply to all those who carry out work on behalf of the Auditor-General. In some instances, those expectations also apply to the firm, and network firm, of those who carry out work on behalf of the Auditor-General.
- Where the Auditor-General places different requirements on those who carry out work on their behalf, those requirements and associated application material should be read in conjunction with the relevant paragraphs in PES 1.

### Requirements and application material

#### Auditor-General's requirement

- AG R300.4** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

### Identifying threats

#### Auditor-General's requirement

- AG R300.6 A1(a)** When setting the audit fee for an engagement to be carried out on behalf of the Auditor-General, an assurance practitioner shall take account of the additional requirements of the Auditor-General's auditing standards and relevant legislation when setting audit fees. This is in addition to taking account of the current standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board, and the New Zealand Accounting Standards Board.

## Evaluating threats

### Auditor-General's commentary

- AG 300.7 A3 The Public Audit Act 2001 places expectations on the Auditor-General that exceed the minimum requirements of PES 1, particularly in the areas of independence.
- As a matter of principle, the Auditor-General's independence requirements apply **equally** to all public entities and to all work carried out by, or on behalf of, the Auditor-General. The two main exceptions to this principle are:
- (a) Under section 540 *Long association of personnel (including partner rotation) with an audit client*, the Auditor-General recognises the distinction between public entities that are "public interest entities" and other public entities. The Auditor-General's rotation requirements are specified in section 540.
  - (b) Under subsection 601 *Accounting and bookkeeping services*, the Auditor-General recognises that the provision of temporary accounting assistance or conducting compilation engagements is appropriate, in the interests of accountability, for small public entities within the parameters specified by the Auditor-General in subsection 601.

- AG 300.7 A4 The Code has been developed assuming that those charged with the governance of an entity are either required to act in the public interest or do so through moral obligation. In the New Zealand public sector, those charged with governance have a legal responsibility to act in the best interests of the public entity. This is a different, and narrower, responsibility than the requirement for the auditor to act in the public interest.
- The implications of this situation for the Auditor-General and those who carry out work on their behalf are that the Auditor-General cannot subordinate their public interest responsibilities to a public entity. For instance, the Auditor-General or those who carry out work on their behalf cannot carry out an activity or accept a situation that is contrary to the fundamental principles in the Auditor-General's Code and this Guide because the activity or situation is deemed to be acceptable to those charged with the governance of an entity. Similarly, the presence of an effective corporate governance structure or operating environment within an entity subject to audit does not relieve the auditor from exercising professional judgement in the public interest.

## Addressing threats

### Examples of safeguards

### Auditor-General's commentary

- AG 300.8 A2.1 The Auditor-General requires that compliance with the fundamental principles is achieved from two perspectives:
1. actual compliance; and
  2. perceived compliance. The reasonable and informed third party test is applied to establish whether perceived compliance has been achieved. The reasonable and informed third party test requires a high acceptable level to be met in that the third party would likely reach the same conclusions about compliance as the assurance practitioner.
- Further direction in addressing perceived compliance is provided in paragraphs AG R120.5 A6.1 and AG R120.5 A6.2.

### Auditor-General's commentary

AG 300.8 A2.2 Several of the examples of safeguards in paragraph 300.8 A2 do not address perceived compliance and, therefore, do not reduce the threat to compliance with the fundamental principles to an acceptable level.

For the avoidance of doubt, the Auditor-General does not consider the internal separation of activities within a firm to be an adequate safeguard that reduces the threat to compliance with the fundamental principles to an acceptable level. Internal separation is sometimes used by firms as a safeguard to permit different (and sometimes incompatible) activities to be carried out for an entity. An example of internal separation is where different partners and engagement teams within the same firm provide non-assurance services for an entity that is also audited by the firm.

### Auditor-General's requirement

**AG R300.8 A2.3** The Auditor-General and those who carry out work on their behalf shall not recommend services or products to a public entity – irrespective of whether or not referral fees or commission arrangements are earned for recommending such services or products. This prohibition extends to the firm, and network firm, and all of those who carry out work on behalf of the Auditor-General.

## Appropriate reviewer

### Auditor-General's requirement

**AG R300.8 A4** Other than in the capacity of an engagement quality reviewer, an “appropriate reviewer” shall not be used as a safeguard if that individual is a member or an employee of the firm that is carrying out the work on behalf of the Auditor-General. This is not a safeguard because it does not satisfy perceived compliance under the reasonable and informed third party test.

# Section 310: Conflicts of interest

## Introduction

### Auditor-General's requirement

**AG R310.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

## Requirements and Application Material

### General

#### Auditor-General's commentary

AG 310.4 A1 Most of the examples in paragraph 310.4 A1 do not involve the provision of assurance services by an assurance practitioner and are unlikely to arise in connection with work carried out by, or on behalf of, the Auditor-General.

Other particular examples identified in paragraph 310.4 A1 (and repeated below in italics) are unacceptable conflicts of interest that would, as a minimum, not satisfy perceived compliance with the fundamental principle of objectivity under the reasonable and informed third party test. This is because of the Auditor-General's responsibilities to Parliament under the Public Audit Act 2001.

Examples of circumstances that would create an unacceptable conflict of interest include:

- *Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.*
- *In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.*
- *Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.*

### Conflict identification

#### General

#### Auditor-General's requirement

**AG R310.5.1** The Auditor-General is the auditor of all public entities. Unlike auditors in the private sector, the Auditor-General cannot always refuse to accept or refuse to continue an assurance engagement to eliminate threats to independence. This situation is recognised in paragraph NZ1.3 of PES 1, which states: "The Code is not intended to detract from responsibilities that may be imposed by law or regulation."

In a conflict between PES 1 and legislation relating to the statutory appointment of the Auditor-General, the following steps shall be taken:

- (a) The threat to independence will, as a minimum, be disclosed to those responsible for governance of the public entity and publicly disclosed in the auditor's report.
- (b) Safeguards will be introduced, which will, as a minimum, be disclosed to those responsible for governance of the public entity and publicly disclosed in the auditor's report. Safeguards may include the selection of an individual and/or firm with suitable credentials, the imposition of specific terms and conditions of appointment, the assignment of audit staff with particular skills and experience, and additional quality control processes to mitigate the threat to independence.

### Auditor-General's application material

AG 310.5.2 Before entering into a relationship with a public entity, the OAG will identify employees and/or third parties who could carry out work on behalf of the Auditor-General. The Auditor-General requires those employees and/or third parties to declare all interests and relationships that might have a bearing on the work to be carried out. The OAG will assess whether those interests or relationships might amount to an unacceptable threat to the fundamental principles and, in particular, the fundamental principle of objectivity. In making this assessment, the Auditor-General will refer to paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the application material in paragraph AG 120.15 A1.5 concerning independence in appearance.

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## Changes in circumstances

### Auditor-General's requirement

**AG R310.6** The Auditor-General, their employees, and those who carry out work on their behalf shall remain alert to changes in interests and relationships that might create a conflict of interest. The Auditor-General's employees, and those who carry out work on behalf of the Auditor-General, shall immediately declare all changes in interests and relationships that might have a bearing on the work to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Those consulting with the OAG shall consider the flowchart in Appendix 1 and provide the reasoning to support their recommendation. The OAG will assess whether those interests or relationships might amount to an unacceptable threat to the fundamental principles and, in particular, to the fundamental principle of objectivity. In making this assessment the OAG will refer to the requirements in paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the associated application material in paragraph AG 120.15 A1.5 concerning independence in appearance.

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## Network firms

### Auditor-General's requirement

**AG R310.7** Those who carry out work on behalf of the Auditor-General who are members or employees of a firm that is part of a network firm shall disclose any interests and relationships, due to interests and relationships of the network firm, that might have a bearing on the work of the Auditor-General to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Those consulting with the OAG shall consider the flowchart in Appendix 1 and provide the reasoning to support their recommendation.

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## Threats created by conflicts of interest

### Auditor-General's commentary

AG 310.8  
A3.1 For the avoidance of doubt, the Auditor-General does not consider the internal separation of activities within a firm to be an adequate safeguard that reduces the threat to compliance with the fundamental principles to an acceptable level. Internal separation is sometimes used by firms as a safeguard to permit different (and sometimes incompatible) activities to be carried out for an entity. An example of internal separation is where different partners and engagement teams within the same firm provide non-assurance services for an entity that is also audited by the firm.

### Auditor-General's requirement

**AG R310.8  
A3.2** Other than in the capacity of an engagement quality reviewer, an “appropriate reviewer” shall not be used as a safeguard if that individual is a member or an employee of the firm that is carrying out the work on behalf of the Auditor-General. This is not a safeguard because it does not satisfy perceived compliance under the reasonable and informed third party test.

## Disclosure and consent

### General

### Auditor-General's commentary

AG 310.9.1 The Auditor-General is an officer of Parliament and has a statutory responsibility to assist Parliament to hold the government to account. The Auditor-General works exclusively in the public interest. The Auditor-General's role demands that the results of the work carried out by the Auditor-General or on their behalf is, in all but exceptional instances, made publicly available. The Auditor-General must be independent, and must be seen to be independent, to carry out their role.

It is acknowledged that, in most conflicts of interest that affect the Auditor-General, the conflict will threaten the independence (real and/or perceived) of the Auditor-General.

It is unacceptable for the Auditor-General and those who carry out work on their behalf to obtain the consent of affected parties to “waive” a conflict of interest that might otherwise constitute an unacceptable threat to independence. Such a “waiver” can never satisfy the reasonable and informed third party test that is applied to assess independence in appearance. Such arrangements are contrary to the public interest.

### Auditor-General's requirement

**AG R310.9.2** When assessing a conflict-of-interest situation, the Auditor-General and those working on their behalf shall apply the reasonable and informed third party test in accordance with paragraphs AG R120.5 A6.1 and AG R120.5 A6.2. In the context of the Auditor-General's role, the reasonable and informed third party test assessment shall only be made based on publicly available information.

### Auditor-General's commentary

AG NZ 310.9.1	<p>The Auditor-General works exclusively in the public interest. As a consequence, it is not possible to disclose a conflict of interest and the related safeguards to the parties or potential parties affected by the conflict, in advance of the work being carried out.</p> <p>Instead, the Auditor-General and those working on their behalf shall apply the reasonable and informed third party test in accordance with paragraphs AG R120.5 A6.1 and AG R120.5 A6.2.</p>
AG 310.9 A2	<p>An Appointed Auditor, or their firm, might be active in a sector such as the energy sector. For example, a firm might be the auditor of more than one entity in a sector that are in competition with one another. This situation does not threaten audit independence. However, it is normal practice for the auditor to disclose to an entity they are proposing to engage with their and/or their firm's relationships with other entities in the sector. Such disclosure might result in the entity requesting a change to an auditor from another firm. Usually, such a request is accepted on the basis that the relationship between the entity and the Appointed Auditor and their firm must be based on mutual trust.</p>

## Section 320: Professional appointments

### Introduction

#### Auditor-General's requirements

<b>AG R320.1</b>	<p>The Auditor-General and those who carry out work on their behalf shall comply with:</p> <ul style="list-style-type: none"> <li>(a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and</li> <li>(b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.</li> </ul>
<b>AG R320.2.1</b>	<p>The Auditor-General is the auditor of all public entities. Unlike auditors in the private sector, the Auditor-General cannot always refuse to accept or refuse to continue an assurance engagement to eliminate threats to independence. This situation is recognised in paragraph NZ1.3 of PES 1, which states: "The Code is not intended to detract from responsibilities that may be imposed by law or regulation."</p> <p>In a conflict between PES 1 and legislation relating to the statutory appointment of the Auditor-General, the following steps shall be taken:</p> <ul style="list-style-type: none"> <li>(a) The threat to independence will, as a minimum, be disclosed to those responsible for governance of the public entity and publicly disclosed in the auditor's report.</li> <li>(b) Safeguards will be introduced, which will, as a minimum, be disclosed to those responsible for governance of the public entity and publicly disclosed in the auditor's report. Safeguards might include the selection of an individual and/or firm with suitable credentials, the imposition of specific terms and conditions of appointment, the assignment of audit staff with particular skills and experience, and additional quality control processes to mitigate the threat to independence.</li> </ul>



### Auditor-General's application material

**AG 320.2.2** Before entering into a relationship with a public entity, the OAG will identify employees and/or third parties who could carry out work on behalf of the Auditor-General. The Auditor-General requires those employees and/or third parties to declare all interests and relationships that might have a bearing on the work to be carried out. The OAG will assess whether those interests or relationships might amount to an unacceptable threat to the fundamental principles and, in particular, the fundamental principle of objectivity. In making this assessment, the Auditor-General will refer to paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the application material in paragraph AG R120.15 A1.5 concerning independence in appearance.

## Requirements and application material

### Client and engagement continuance

#### Auditor-General's requirement

**AG R320.9** The Auditor-General is the auditor of all public entities. Unlike auditors in the private sector, the Auditor-General cannot always refuse to accept or refuse to continue an engagement to eliminate threats to the fundamental principles.

Those who carry out work on behalf of the Auditor-General shall remain alert to changes in circumstances that might threaten compliance with the fundamental principles and disclose any such changes in circumstances to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Those consulting with the OAG shall consider the flowchart in Appendix 1 and provide the reasoning to support their recommendation. The OAG will assess the measures to be applied to mitigate any unacceptable threats to the fundamental principles that arise from the changes in circumstances.

# Section 325: Objectivity of an engagement quality reviewer and other appropriate reviewers

## Introduction

#### Auditor-General's requirements

**AG R325.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

**AG R325.4** Other than in the capacity of an engagement quality reviewer, an "appropriate reviewer" shall not be used as a safeguard if that individual is a member or an employee of the firm that is carrying out the work on behalf of the Auditor-General. This is not a safeguard because it does not satisfy perceived compliance under the reasonable and informed third party test.

## Section 330: Fees and other types of remuneration

### Introduction

#### Auditor-General's requirement

- AG R330.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.
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### Application material

#### Level of fees

#### Auditor-General's requirement

- AG R330.3**  
**A2** When setting the audit fee for an engagement to be carried out on behalf of the Auditor-General, an assurance practitioner shall take account of the additional requirements of the Auditor-General's auditing standards and relevant legislation when setting audit fees. This is in addition to taking account of the current standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board, and the New Zealand Accounting Standards Board and relevant legislation.
- 

### Contingent fees

#### Auditor-General's requirement

- AG R330.4**  
**A1** Those who carry out work on behalf of the Auditor-General shall not set contingent or success fees in respect of any work carried out in relation to a public entity. The setting of such fees creates a "self-interest" threat to independence that could not be reduced to an acceptable level by the application of any safeguards.
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## Referral fees or commissions

### Auditor-General's requirement

**AG NZ  
R330.5**

The Auditor-General and those who carry out work on their behalf shall not recommend services or products to a public entity – irrespective of whether referral fees or commission arrangements are earned for recommending such services or products. This prohibition extends to the firm, and the network firm, of those who carry out work on behalf of the Auditor-General.

Similarly, the Auditor-General and those who carry out work on their behalf shall not enter into a relationship with the public entity to recommend services or products of that public entity to third parties – irrespective of whether referral fees or commission arrangements are earned for recommending such services or products. This prohibition extends to the firm, and the network firm, of those who carry out work on behalf of the Auditor-General.

# Section 340: Inducements, including gifts and hospitality

## Introduction

### Auditor-General's requirement

**AG R340.1.1**

The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

### Auditor-General's commentary

AG 340.1.2

An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour but not necessarily with the intent to improperly influence that individual's behaviour. Inducements, either given or received, have no place in the conduct of effective audits.

A matter quite separate from the notion of an inducement is when the provision or receipt of gifts and hospitality by an auditor might be a necessary step to carrying out an effective audit.

### Auditor-General's commentary

Auditors are required to establish and maintain effective two-way communication with those charged with governance under ISA (NZ) 260 and to obtain an understanding of the entity and its environment under ISA (NZ) 315 (Revised 2019). Measures taken to establish and maintain communication with those charged with governance and to obtain an understanding of the entity and its environment might include the provision or receipt of gifts and hospitality by an auditor. The provision or receipt of gifts and hospitality that are limited to those that are “trivial and inconsequential in value, quantity, nature, and frequency, and are not illegal” (see paragraphs AG R340.2.1 and AG R340.2.2), might be necessary to an effective audit.

### Auditor-General's requirement

**AG R340.2.1** The Auditor-General and those working on their behalf shall not offer or accept, or encourage others to offer or accept, any inducement – irrespective of intent. Gifts and hospitality are acceptable only to the extent they are trivial and inconsequential in value, quantity, nature, and frequency, and are not illegal.

### Auditor-General's application material

AG 340.2.2 The provision or receipt of gifts and hospitality, described in paragraph AG R340.2.1 as “trivial and inconsequential in value, quantity, nature, and frequency, and are not illegal”, might be necessary to an effective audit. However, it is essential that the offer or acceptance of a gift or hospitality does not, in fact and in appearance, place an obligation on one party or the other.

It is not possible or appropriate to establish specific rules on what is considered to be “trivial and inconsequential” in the context of audits carried out on behalf of the Auditor-General. However, auditors need to maintain an awareness of how the provision or receipt of gifts and hospitality in the context of an audit might be perceived under the reasonable and informed third party test. Auditors should be prepared to justify the provision or receipt of gifts and hospitality as being appropriate, in the context of the particular entity they audit on behalf of the Auditor-General.

## Section 350: Custody of client assets

### Introduction

#### Auditor-General's requirements

**AG R350.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

## Auditor-General's requirements

**AG R350.2** The Auditor-General and those working on their behalf shall not hold entity assets.

# Section 360: Responding to non-compliance with laws and regulations

## Introduction

### Auditor-General's requirement

**AG R360.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

### Auditor-General's commentary

AG 360.3 The Auditor-General and those who carry out work on their behalf can have numerous and separate interactions with a public entity where non-compliance or suspected non-compliance with laws and regulations might be identified. Those interactions include:

- (a) the annual audit carried out by the Appointed Auditor;
- (b) other work carried out by the Appointed Auditor or their firm;
- (c) performance audits or inquiries carried out by, or on behalf of, the Auditor-General;
- (d) other auditing services carried out by Audit New Zealand for a public entity that is audited by another Audit Service Provider; and
- (e) the audit of a subsidiary of a public entity group by a private sector auditor when the subsidiary is not required to be separately audited by the Auditor-General.

The Appointed Auditor must be kept informed of any other interactions with the public entity to ensure that they:

- (a) are made aware of matters of audit significance, including non-compliance or suspected non-compliance with laws and regulations that might have been identified; and
- (b) can assess whether any non-compliance or suspected non-compliance with laws and regulations has been appropriately:
  - communicated to the public entity; and
  - resolved by public entity personnel.

The OAG will ensure that Appointed Auditors are kept informed of matters arising from other initiatives or processes of the Auditor-General that are not carried out by the Appointed Auditor.

## Audits and reviews of financial statements

### Obtaining an understanding of the matter

#### Auditor-General's requirements

**AG R360.10 A3** Unless OAG guidance has been provided that enables an Appointed Auditor to determine if non-compliance or suspected non-compliance has occurred or might occur, the non-compliance or suspected non-compliance shall be reported to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Advice will be provided, in consultation with the affected parties, on:

- (a) whether non-compliance or suspected non-compliance has occurred or might occur; and
- (b) how to address the non-compliance or suspected non-compliance.

**AG R360.12** Unless guidance on how to report the non-compliance or suspected non-compliance is prescribed by the OAG – such as in an audit brief – the discussion with those charged with governance shall only take place following prior consultation with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address).

### Addressing the matter

#### Auditor-General's requirement

**AG NZ R360.15.1** Unless guidance on how to report the non-compliance or suspected non-compliance is prescribed by the OAG – such as in an audit brief – the non-compliance or suspected non-compliance shall be reported to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Advice will be provided, in consultation with the affected parties, on how to address the non-compliance or suspected non-compliance.

### Determining whether further action is required

#### Auditor-General's requirements

**AG R360.19** Assessing the appropriateness of the entity's response to non-compliance or suspected non-compliance that has been brought to the entity's attention by those who carry out work on behalf of the Auditor-General will be made in the context of:

- (a) advice prescribed by the OAG – such as in an audit brief; or
- (b) other advice provided by the OAG.

Where the entity's response is not considered to be appropriate, those who carry out work on behalf of the Auditor-General shall report the entity's response to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Advice will be provided by the OAG, in consultation with the affected parties, on what further action is needed.

**AG R360.20** Where the entity's response to the non-compliance or suspected non-compliance is not considered to be appropriate, those who carry out work on behalf of the Auditor-General shall report the entity's response to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Further action, if any, will be determined by the OAG, in consultation with the affected parties.

### Auditor-General's requirements

**AG R360.21** Where the entity's response to the non-compliance or suspected non-compliance is not considered to be appropriate, those who carry out work on behalf of the Auditor-General shall report the entity's response to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Further action, if any, to escalate the matter will be determined by the OAG, in consultation with the affected parties.

**AG R360.21 A2** The Auditor-General is the auditor of all public entities. Unlike auditors in the private sector, the Auditor-General cannot always refuse to accept or refuse to continue an engagement to eliminate threats to the fundamental principles, including a self-interest or intimidation threat that might arise when those who carry out work on behalf of the Auditor-General become aware of non-compliance or suspected non-compliance with laws and regulations.

If the entity's response to the non-compliance or suspected non-compliance is not considered to be appropriate, the OAG shall be informed (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG, in consultation with the affected parties, shall assess the measures to be applied, if any, to mitigate any unacceptable threats to the fundamental principles that arise from the entity's failure to appropriately respond to its non-compliance or suspected non-compliance.

## Determining whether to disclose the matter to an appropriate authority

### Auditor-General's requirement

**AG R360.26** The OAG will determine whether non-compliance or suspected non-compliance will be disclosed to an appropriate authority. Such disclosure shall be made by the OAG.

## Imminent breach

### Auditor-General's requirement

**AG R360.27** Where a determination is made to disclose an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees, or the general public to an appropriate authority, the disclosure shall be made by the OAG.

## Documentation

### Auditor-General's requirement

**AG NZ R360.28 A1.1** In addition to the current standards issued by the New Zealand Auditing and Assurance Standards Board and relevant legislation, those who carry out work on behalf of the Auditor-General shall also take account of any additional requirements in the Auditor-General's auditing standards when documenting non-compliance or suspected non-compliance with laws and regulations.

## Assurance services other than audits and reviews of financial statements

Obtaining an understanding of the matter and addressing it with management and those charged with governance

### Auditor-General's commentary

- AG 360.30 This section should apply to “professional services” other than audits or reviews. Therefore, it applies to:
- (a) other work carried out by the Appointed Auditor or their firm;
  - (b) performance audits or inquiries carried out on behalf of the Auditor-General; and
  - (c) other auditing services carried out by Audit New Zealand for a public entity that is audited by another Audit Service Provider.
- The Appointed Auditor must be kept informed of any other interactions with the public entity to ensure that they:
- (a) are made aware of matters of audit significance, including non-compliance or suspected non-compliance with laws and regulations that might have been identified; and
  - (b) can assess whether any non-compliance or suspected non-compliance with laws and regulations has been appropriately:
    - communicated to the public entity; and
    - resolved by public entity personnel.
- The OAG will ensure that Appointed Auditors are kept informed of matters arising from other initiatives or processes of the Auditor-General that are not carried out by the Appointed Auditor.

### Relevant factors to consider

### Auditor-General's application material

- AG R360.34  
A1 When the Appointed Auditor becomes aware of “professional services” being carried out by another assurance practitioner within a public entity or public entity group, they should encourage the other assurance practitioner to report all instances of non-compliance or suspected non-compliance that come to their attention to the Appointed Auditor.
- Determining the materiality of non-compliance or suspected non-compliance with laws and regulations in the context of the audit of a public entity or public entity group can be difficult. This decision is best left to the Appointed Auditor of the public entity or public entity group.



Considering whether further action is needed

**Auditor-General's requirements**

**AG R360.36** The Appointed Auditor, or those who carry out work on behalf of the Auditor-General, will assess whether further action is needed in the public interest by referring to advice prescribed by the OAG – such as in an audit brief.

Otherwise, the Appointed Auditor, or those who carry out work on behalf of the Auditor-General, shall consult with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Advice will be provided by the OAG on how to report the non-compliance or suspected non-compliance.

**AG R360.37** Where a determination is made to disclose the non-compliance or suspected non-compliance to an appropriate authority, the disclosure shall be made by the OAG.

**Imminent breach**

**Auditor-General's requirement**

**AG R360.38** Where a determination is made to disclose an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees, or the general public to an appropriate authority, the disclosure shall be made by the OAG.

**Seeking advice**

**Auditor-General's requirement**

**AG R360.39. A1** Unless guidance on how to report the non-compliance or suspected non-compliance is prescribed by the OAG – such as in an audit brief – the non-compliance or suspected non-compliance shall be reported to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). Advice will be provided on how to report the non-compliance or suspected non-compliance.

# Part 4A – Independence for audit and review engagements

## Section 400: Applying the conceptual framework to independence for audit and review engagements

### Introduction

#### Auditor-General's commentary

AG 400.1 The Public Audit Act 2001 places expectations on the Auditor-General that exceed the minimum requirements of PES 1, particularly in the area of independence. Those expectations apply to all those who carry out work on behalf of the Auditor-General. In some instances, those expectations also apply to the firm, and network firm, of those who carry out work on behalf of the Auditor-General.

Where the Auditor-General places additional requirements on those who carry out work on their behalf, those requirements and associated application material are usually included in a box below the relevant paragraphs of PES 1.

#### Auditor-General's requirements

**AG RNZ 400.2.1** This Part shall be applied in relation to all work carried out on behalf of the Auditor-General.

PES 1 is scoped to apply to “assurance engagements”. The glossary to PES 1 describes an assurance engagement as “An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users ... about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).”

In short, an “assurance agreement” is a process that involves the provision of a reasonable assurance conclusion (an audit) or a limited assurance conclusion (a review). However, a significant proportion on the work carried out on behalf of the Auditor-General is not designed to reach a conclusion that gives reasonable or limited assurance.

For the purposes of the Auditor-General's Code and this Guide, any references to an assurance engagement in PES 1 are to be applied to all work carried out on behalf of the Auditor-General under sections 15 to 19 of the Public Audit Act 2001. This is despite the fact that the work might not meet the definition of an assurance engagement in PES 1.

**AG R400.5.1** All those who carry out work on behalf of the Auditor-General shall be both independent and be seen to be independent. The perception of independence (independence in appearance) is a vital component of independence that those who carry out work on behalf of the Auditor-General shall take into account when assessing their independence. Such an assessment requires consideration of how a particular situation would “look” from the perspective of a reasonable and informed third party with publicly available information.

## Auditor-General's requirements

**AG R400.5.2** Those who carry out work on behalf of the Auditor-General shall apply a more stringent test than that described in para 400.5(b) of PES 1 when assessing independence in appearance. In applying the more stringent test, they shall assess whether there are **any** facts and circumstances that **might** cause a reasonable and informed third party, **informed only by publicly available information**, to conclude that a firm's, or an audit, review, or assurance team member's, integrity, objectivity, or professional scepticism has been compromised.

**AG R400.5.3** In making their assessment about independence, those working on behalf of the Auditor-General shall consult with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) when uncertainty exists about an independence matter. Those consulting with the OAG shall consider the flowchart in Appendix 1 and provide the reasoning to support their recommendation.

## Auditor-General's application material

- AG 400.5.4 The more stringent test is based on the following criteria:
- (a) The assessment of independence in appearance must take into account **any** facts and circumstances. The proper application of the reasonable and informed third party test requires an assessment of any facts and circumstances that might influence the application of the test. To limit the reasonable and informed third party test to facts and circumstances that are "so significant" is not appropriate. This is because the highly subjective term "so significant" does not establish a sufficiently high or rigorous threshold to ensure that independence in appearance is maintained. Those applying the "so significant" test are required to discount all facts or circumstances unless they meet a level of significance that exceeds "normal" significance. This interpretation can be taken from the term "so significant". The Auditor-General and those who carry out work on their behalf are required to take account of all facts and circumstances in assessing independence in appearance – irrespective of whether the facts or circumstances meet the "so significant" criterion.
  - (b) The assessment of independence in appearance is based on whether the reasonable and informed third party **might** conclude that integrity, objectivity, or professional scepticism has been compromised. Any element of doubt as to independence will mean that the reasonable and informed third party test fails. The independence in appearance test in paragraph 400.5(b) requires that the reasonable and informed third party "would be likely to conclude" that integrity, objectivity, or professional scepticism has been compromised. The "would be likely to conclude" test is a relatively low standard in that the facts and circumstances must be persuasive before those applying the test would conclude that integrity, objectivity, or professional scepticism has been compromised. When applying the reasonable and informed third party test, the "would be likely to" acceptable level shall be replaced with the "might" acceptable level.
  - (c) The facts and circumstances to which the reasonable and informed third party test is applied **must be publicly available**. The reason for this requirement is that the reports of the Auditor-General, in most instances, are made available to the public. If information that is influential in applying the reasonable and informed third party test is not publicly available, then the appearance that the Auditor-General is not independent will remain. In this situation, the reasonable and informed third party test fails.

### Auditor-General's requirement

**AG R400.6** For the purposes of the Auditor-General's Code and this Guide, any references to assurance engagements (including audit and review engagements) in PES 1 shall be applied to all work carried out by, or on behalf of, the Auditor-General. This is despite the fact that the work might not meet the definition of an assurance engagement in PES 1.

## Public interest entities

### Auditor-General's requirement

**AG R400.8** As a matter of principle, the Auditor-General's independence requirements apply equally to all public entities and to all work carried out by, or on behalf of, the Auditor-General. In practice, this means that the requirements in PES 1 that apply to "public interest entities" shall be applied to all public entities. The two main exceptions to this principle are:

- (a) Under section 540 *Long association of personnel (including partner rotation) with an audit client*, the Auditor-General recognises the distinction between public entities that are "public interest entities" and other public entities. The Auditor-General's rotation requirements are specified in section 540.
- (b) Under subsection 601 *Accounting and bookkeeping services*, the Auditor-General recognises that the provision of temporary accounting assistance or conducting compilation engagements is appropriate, in the interests of accountability, for small public entities within the parameters specified by the Auditor-General in subsection 601.

## Reports that include a restriction on use and distribution

### Auditor-General's requirements

**AG R400.9.1** Reports issued by, or on behalf of, the Auditor-General that are intended for a wide audience shall not include a restriction on use and distribution.

A restriction on use and distribution in a report issued by, or on behalf of, the Auditor-General shall only be included with the express permission of the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address).

**AG R400.9.2** Those who carry out work on behalf of the Auditor-General shall fully comply with the independence requirements of the Auditor-General's Code and this Guide, in the circumstances where the OAG has granted permission for a restriction on use and distribution to be included in a report issued on behalf of the Auditor-General.

## Assurance engagements other than audit and review engagements

### Auditor-General's commentary

AG 400.10 Part 4B does not apply to the Auditor-General.

## Requirements and application material

### General

#### Auditor-General's requirements

**AG R400.12** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

**AG NZ R400.12.1** The presence of multiple threats to independence, which individually might not be significant, might create an unacceptable threat to independence in appearance. When assessing the cumulative effect of multiple threats to independence, those who carry out work on behalf of the Auditor-General shall apply the reasonable and informed third party test as set out in paragraphs AG R400.5.1 to AG R400.5.3 and take account of the application material in paragraph AG 400.5.4.

### Period during which independence is required

#### Auditor-General's commentary

AG 400.31 A3 The examples of actions in paragraph 400.31 A3 (below) that might be safeguards to address the threat to independence caused by the circumstances in paragraphs R400.31, 400.31 A1 and 400.31 A2 do not normally provide a satisfactory safeguard to independence in appearance. Accordingly, these safeguards are not available to those who carry out work for the Auditor-General, except in unusual circumstances.

Other than in the capacity of an engagement quality reviewer, an "appropriate reviewer" shall not be used as a safeguard if that individual is a member or an employee of the firm that is carrying out the work on behalf of the Auditor-General. Having a member or an employee of the firm that is carrying out the work on behalf of the Auditor-General review the audit or review and non-assurance work is not a satisfactory safeguard because it does not satisfy independence in appearance under the reasonable and informed third party test.

*Examples of actions that might be safeguards to address such threats include:*

- *Not assigning professionals who performed the non-assurance service to be members of the engagement team.*
- *Having an appropriate reviewer review the audit and non-assurance work as appropriate.*
- *Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.*

## Network firms

### Auditor-General's requirements

- AG R400.52** When applying the reasonable and informed third party test under paragraph R400.52(b), those who carry out work on behalf of the Auditor-General shall apply the requirements in paragraphs AG R400.5.1 to AG R400.5.3 and take account of the application material in paragraph AG 400.5.4.
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- AG R400.53** Where uncertainty exists about whether an entity is part of a network firm, those who carry out work on behalf of the Auditor-General shall apply the reasonable and informed third party test as set out in paragraphs AG R400.5.1 to AG R400.5.3 and take account of the application material in paragraph AG 400.5.4.
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## Mergers and acquisitions

### When a client merger creates a threat

### Auditor-General's requirements

- AG R400.71** If the merged entity is no longer a public entity, then the Auditor-General's requirement to audit that entity will normally be determined by the prevailing laws and regulations. In most instances, the merged entity will no longer be required to be audited by the Auditor-General.
- If the merged entity is a public entity, the Auditor-General will continue to be the auditor. The Auditor-General's choice of Auditor Service Provider will be governed by the requirements and application material in paragraphs 400.70 A1 to R400.76. Where a threat to independence might arise because of the merger or acquisition, the reasonable and informed third party test shall be applied – as set out in paragraphs AG R400.5.1 to AG R400.5.3 and the application material in paragraph AG 400.5.4.
- 
- AG R400.72** The firm shall advise the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition.
- 
- AG R400.73** For work carried out by, or on behalf of, the Auditor-General, the transition measures in paragraph R400.73(c) shall be disclosed in the report arising from the work.
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- AG R400.74** For work carried out by, or on behalf of, the Auditor-General, any continuing interest or relationship identified in paragraph 400.70 A1 shall be disclosed in the report arising from the work.
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## If objectivity remains compromised

### Auditor-General's requirement

**AG R400.75** The Auditor-General is the auditor of all public entities. Unlike auditors in the private sector, the Auditor-General cannot always refuse to accept or refuse to continue an assurance engagement to eliminate threats to independence. This situation is recognized in paragraph NZ1.3 of PES 1, which states: "The Code is not intended to detract from responsibilities that may be imposed by law or regulation."

Where a threat to independence arises because of a merger or acquisition, the following steps shall be taken:

- (a) The threat to independence will, as a minimum, be disclosed to those responsible for governance of the public entity and publicly disclosed in the auditor's report.
- (b) Safeguards will be introduced, which will, as a minimum, be disclosed to those responsible for governance of the public entity and publicly disclosed in the auditor's report. Safeguards might include the selection of an individual and/or firm with suitable credentials, the imposition of specific terms and conditions of appointment, the assignment of audit staff with particular skills and experience, and additional quality management processes to mitigate the threat to independence.

## Breach of an independence provision for audit and review engagements

When a firm identifies a breach

### Auditor-General's requirement

**AG R400.80** When a breach of a requirement in this Part has been identified, the Appointed Auditor shall immediately inform the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG, in consultation with the Appointed Auditor and their firm, will determine what action is required, in accordance with paragraphs R400.80 to R400.89.

# Section 410: Fees

## Introduction

### Auditor-General's requirement

**AG R410.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

## Requirements and application material

### General

#### Auditor-General's commentary

- AG 410.3 A2 The Public Audit Act 2001 places expectations on the Auditor-General that exceed the minimum requirements of PES 1, particularly in the areas of independence.
- As a matter of principle, the Auditor-General's independence requirements apply **equally** to all public entities and to all work carried out by, or on behalf of, the Auditor-General. The two main exceptions to this principle are:
- (c) Under section 540 *Long association of personnel (including partner rotation) with an audit client*, the Auditor-General recognises the distinction between public entities that are "public interest entities" and other public entities. The Auditor-General's rotation requirements are specified in section 540.
  - (d) Under subsection 601 *Accounting and bookkeeping services*, the Auditor-General recognises that the provision of temporary accounting assistance or conducting compilation engagements is appropriate, in the interests of accountability, for small public entities within the parameters specified by the Auditor-General in subsection 601.

### Contingent fees

#### Auditor-General's requirements

- AG R410.9** The setting of contingent or success fees in respect of any work carried out by staff of the Auditor-General or an Appointed Auditor, or their firm, to a public entity is not permitted. The setting of such fees creates a "self-interest" threat to independence that could not be reduced to an acceptable level by the application of any safeguards.
- AG R410.10** The setting of contingent or success fees in respect of any work carried out in addition to the audit by staff of the Auditor-General or an Approved Auditor, or their firm, to a public entity is not permitted. The setting of such fees creates a "self interest" threat to independence that could not be reduced to an acceptable level by the application of any safeguards, including the safeguards described in paragraph 410.10 A3.

### Total fees – overdue fees

#### Auditor-General's requirement

- AG R410.13** The Appointed Auditor shall advise the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) if fees determined to be reasonable by the Auditor-General under section 42 of the Public Audit Act 2001 are not paid in accordance with the fee-paying arrangements agreed between the Appointed Auditor and the public entity.
- The OAG will take the steps deemed to be appropriate to have the fees paid, while taking into account any valid concerns of the public entity.



## Total fees – fee dependency

### Auditor-General's requirement

**AG R410.14 A7** For any public entity audited on behalf of the Auditor-General, the Appointed Auditor shall report the total fees (from all sources) received from a public entity and its related entities to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address when the total fees generated from a public entity by the firm expressing the audit opinion, on behalf of the Auditor-General, represent a large proportion of the total fees of that firm.

The OAG will make an assessment of whether the extent of the fees presents an unacceptable threat to audit independence. In making its assessment, the OAG will apply the reasonable and informed third party test – as set out in paragraphs AG R400.5.1 to AG R400.5.3 and the application material in paragraph AG 400.5.4.

# Section 411: Compensation and evaluation policies

## Introduction

### Auditor-General's requirement

**AG R411.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

## Requirements and application material

### General

### Auditor-General's requirement

**AG R411.4** Any work provided in relation to a public entity by the Appointed Auditor or their firm, over and above the work that is required (or permitted) to be carried out on behalf of the Auditor-General under legislation, shall generally be **“work of an assurance nature”**, unless otherwise provided for in the Auditor-General's Code and in this Guide.

**“Work of an assurance nature”** is described in paragraphs AG R600.8.4 to AG 600.8.8.

## Section 420: Gifts and hospitality

### Introduction

#### Auditor-General's requirement

- AG R420.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

#### Auditor-General's commentary

- AG 420.2 The provision or receipt of gifts and hospitality by an auditor might be a necessary step to carrying out an effective audit.
- Auditors are required to establish and maintain effective two-way communication with those charged with governance under ISA (NZ) 260 and to obtain an understanding of the entity and its environment under ISA (NZ) 315 (Revised 2019). Measures taken to establish and maintain communication with those charged with governance and to obtain an understanding of the entity and its environment may include the provision or receipt of gifts and hospitality by an auditor. The provision or receipt of gifts and hospitality that are limited to those that are "trivial and inconsequential in value, quantity, nature, and frequency, and are not illegal" (see paragraphs AG R420.3.1 and AG 420.3.2), might be necessary to an effective audit.

### Requirement and application material

#### Auditor-General's requirement

- AG R420.3.1** Gifts and hospitality are acceptable only to the extent they are trivial and inconsequential in value, quantity, nature, and frequency, and are not illegal.

### Auditor-General's application material

**AG 420.3.2** The provision or receipt of gifts and hospitality, described in paragraph AG R420.3.1 as “trivial and inconsequential in value, quantity, nature, and frequency, and are not illegal”, might be necessary to an effective audit. However, it is essential that the offer or acceptance of a gift or hospitality does not, in fact and in appearance, place an obligation on one party or the other.

It is not possible or appropriate to establish specific rules on what is considered to be “trivial and inconsequential” in the context of audits carried out on behalf of the Auditor-General. However, auditors need to maintain an awareness how the provision or receipt of gifts and hospitality in the context of an audit might be perceived under the reasonable and informed third party test. Auditors should be prepared to justify the provision or receipt of gifts and hospitality as being appropriate, in the context of the particular entity they audit on behalf of the Auditor-General.

## Section 430: Actual or threatened litigation

### Introduction

#### Auditor-General's requirement

**AG R430.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

### Application material

#### Auditor-General's requirement

**AG R430.3 A1** When an Appointed Auditor or an Audit Service Provider becomes aware of actual or threatened litigation concerning an entity they audit on behalf of the Auditor-General, they shall advise the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG will determine the appropriate course of action, in consultation with the Appointed Auditor and their firm.

## Section 510: Financial interests

### Introduction

#### Auditor-General's requirement

- AG R510.1.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

#### Auditor-General's commentary

- AG 510.1.2** The requirements and application material on financial interests:
- (a) do not apply to public securities, as defined in the Public Finance Act 1989; and
  - (b) cease to apply when the Auditor-General is no longer the auditor of an entity and when all risks of insider trading have disappeared (for example, following listing of shares on a stock exchange).

#### Auditor-General's requirements

##### Specific requirements that apply to the Auditor-General, the Deputy Auditor-General, and employees of the Auditor-General

- AG R510.2.1** The Auditor-General, the Deputy Auditor-General, and their immediate family members shall not have a financial interest in any public entity.
- AG R510.2.2** The following employees of the Auditor-General shall not have a financial interest in any public entity:
- (a) members of the OAG Leadership team and their immediate family members;
  - (b) members of the Audit New Zealand Leadership team and their immediate family members;
  - (c) members of the OAG Audit Quality group;
  - (d) members of the OAG Legal, Policy, and Inquiries group;
  - (e) sector managers in the OAG Local Government and Parliamentary groups; and
  - (f) employees of the OAG and Audit New Zealand who are involved in the audit of the financial statements of the government.
- AG R510.2.3** Audit New Zealand Directors and members of Audit New Zealand's Professional Practices Group shall not have a financial interest in:
- (a) any public entity audited by Audit New Zealand; or
  - (b) any public entities that are part of a public entity group where Audit New Zealand audits a significant entity in the group.

## Auditor-General's requirements

<b>AG R510.2.4</b>	All other employees of the Auditor-General: <ol style="list-style-type: none"> <li>(a) may have a financial interest in a public entity;</li> <li>(b) shall disclose their interest as part of the employee independence system, so that any independence threats can be managed; and</li> <li>(c) shall not work on any matter involving a public entity or group where they have a financial interest.</li> </ol>
<b>AG R510.2.5</b>	If an immediate family member (that is, a spouse (or equivalent)) or a dependent of an individual referred to in paragraphs AG R510.2.2(c) to AG R510.2.2(f), AG R510.2.3, and AG R510.2.4 has a financial interest in a public entity, then the financial interest shall be disclosed, in accordance with the Auditor-General's and Audit New Zealand's independence policies and procedures that are required by PES 3: <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i> .
<b>AG R510.2.6</b>	On disclosure of a financial interest held by an immediate family member, the threat to independence shall be managed by: <ol style="list-style-type: none"> <li>(a) disposing of the financial interest; or</li> <li>(b) removing the individual referred to in paragraphs AG R510.2.2(c) to AG R510.2.2(f), AG R510.2.3, and AG R510.2.4 from the audit team, or from doing any other work involving the public entity in which the immediate family member has a financial interest.</li> </ol>

## Requirements and application material

### Auditor-General's requirement

<b>AG R510.3 A2</b>	<p>A financial interest might threaten both independence of mind and independence in appearance. When assessing whether a financial interest threatens independence in appearance, those who carry out work on behalf of the Auditor-General shall apply the reasonable and informed third party test as set out in paragraphs AG R400.5.1 to AG R400.5.3 and take account of the application material in paragraph AG 400.5.4.</p> <p>The application of the reasonable and informed third party test will, in all but exceptional circumstances, lead to the conclusion that any financial interest should not be held – including financial interests that are determined to be immaterial under paragraph 510.3 A2.</p> <p>In circumstances where those who carry out work on behalf of the Auditor-General consider that an immaterial financial interest will not threaten independence in appearance and conclude that retention of the financial interest is acceptable, then they shall advise the OAG (using the <a href="mailto:Independence@oag.parliament.nz">Independence@oag.parliament.nz</a> email address). The OAG, in consultation with the affected party and their firm, will determine whether retention of the financial interest threatens independence in appearance.</p>
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## Financial interests received unintentionally

### Auditor-General's requirement

- AG R510.9** If financial interests are acquired involuntarily (for example, in a share give-away by an energy company):
- (a) the financial interest shall be disclosed, in accordance with the Auditor-General's, Audit New Zealand's, or other Audit Service Provider's independence policies and procedures that are required by PES 3: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; and
  - (b) the threat to independence shall be managed by:
    - (i) disposing of the financial interest at the earliest opportunity at which there can be no suggestion of insider trading; or
    - (ii) removing the individual from the audit team, or from doing any other work involving the public entity in which they have a financial interest.
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## Section 511: Loans and guarantees

### Introduction

### Auditor-General's requirement

- AG R511.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

This section does not apply to student loans unless the loan is in arrears or is otherwise in dispute.

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## Requirements and application material

### General

#### Auditor-General's requirement

**AG R511.3 A1** A loan or guarantee might threaten both independence of mind and independence in appearance. When assessing whether a loan or guarantee threatens independence in appearance, those who carry out work on behalf of the Auditor-General shall apply the reasonable and informed third party test as set out in paragraphs AG R400.5.1 to AG R400.5.3 and take account of the application material in paragraph AG 400.5.4.

Except as permitted under the provisions of this section, the application of the reasonable and informed third party test will, in all but exceptional cases, lead to the conclusion that:

- (a) no loan, or a guarantee of a loan, should be made to a public entity; or
- (b) no loan, or guarantee of a loan, should be accepted from a public entity.

Such a conclusion is likely to be formed even if the loans or guarantees are determined to be immaterial under paragraph 511.3 A1.

In circumstances where those who carry out work on behalf of the Auditor-General consider that an immaterial loan or guarantee will not threaten independence in appearance and conclude that retention of the loan or guarantee is acceptable, then they shall advise the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG, in consultation with the affected party and their firm, will determine whether retention of the loan or guarantee threatens independence in appearance.

### Loans and guarantees with an audit client that is a bank or similar institution

#### Auditor-General's requirement

**AG R511.5** In respect of a loan or guarantee made under normal lending procedures, terms and conditions, if loan repayments fall into arrears, if a loan is to be restructured because of financial difficulties, or if a guarantee of a loan is to be exercised, then the threat to audit independence shall be eliminated. If the threat to independence cannot be eliminated, those who carry out work on behalf of the Auditor-General or a representative of the firm shall advise the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG, in consultation with the affected party and their firm, will determine what action is required to mitigate the threat to independence, if mitigation is possible.

## Loans and guarantees with an audit client that is not a bank or similar institution

### Auditor-General's requirements

- AG R511.7.1** No loan shall be accepted from, or given to, a public entity that is not a bank or similar institution by:
- (a) the Auditor-General and their immediate family;
  - (b) the Deputy Auditor-General and their immediate family;
  - (c) any employee of the Auditor-General and their immediate family; or
  - (d) any person (and their immediate family), firm or network firm where that person, firm or network firm is carrying out work on behalf of the Auditor-General.

This requirement does not apply to student loans.

- AG R511.7.2** No guarantee shall be accepted from, or given to, a public entity that is not a bank or similar institution by:
- (a) the Auditor-General or their immediate family;
  - (b) the Deputy Auditor-General or their immediate family;
  - (c) any employee of the Auditor-General or their immediate family; or
  - (d) any person (or their immediate family), firm, or network firm where that person, firm, or network firm is carrying out work on behalf of the Auditor-General.

## Section 520: Business relationships

### Introduction

#### Auditor-General's requirement

- AG R520.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.



## Requirements and application material

### General

#### Auditor-General's requirement

**AG R520.3 A1** A business relationship might threaten both independence of mind and independence in appearance. When assessing whether a business relationship threatens independence in appearance, those who carry out work on behalf of the Auditor-General shall apply the reasonable and informed third party test as set out in paragraphs AG R400.5.1 to AG R400.5.3 and take account of the application material in paragraph AG 400.5.4.

The application of the reasonable and informed third party test will, in all but exceptional circumstances, lead to the conclusion that any business relationship should not be held – including business relationships that are determined to be immaterial under paragraph 520.3 A1.

In circumstances where those who carry out work on behalf of the Auditor-General consider that an immaterial business relationship will not threaten independence in appearance and conclude that retention of the business relationship is acceptable, then they shall advise the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG, in consultation with the affected party and their firm, will determine whether retention of the business relationship threatens independence in appearance.

## Section 521: Family and personal relationships

### Introduction

#### Auditor-General's requirement

**AG R521.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

## Requirements and application material

### General

#### Auditor-General's commentary

**AG 521.3 A2.1** In the public sector, it is important that those working on behalf of the Auditor-General remain aware of the effect of existing or potential political affiliations on audit independence. Such awareness should also extend to comment on political issues made by those working on behalf of the Auditor-General.

### Auditor-General's requirements

**AG R521.3  
A2.2** Those working on behalf of the Auditor-General shall not be, nor seek to be, either an officer of, or a candidate for, any political party seeking election to Parliament.

**AG R521.3  
A2.3** Where those working on behalf of the Auditor-General wish to seek election or accept an appointment to any local authority, board, or other governing body of a public entity, they shall refer their intention to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). The OAG, in consultation with the individual concerned and the Audit Service Provider (where necessary), will determine what action should be taken to preserve the Auditor-General's independence.

## Section 522: Recent service with an audit client

### Introduction

#### Auditor-General's requirement

**AG R522.1** The Auditor-General and those who carry out work on their behalf shall comply with:

- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
- (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

### Requirements and application material

#### Service during period covered by the audit report

#### Auditor-General's requirement

**AG R522.3** In addition to the requirement in paragraph R522.3, those working on behalf of the Auditor-General shall not participate in an engagement with a public entity within two years of the cessation of that individual's previous service as an officer, director, or employee with that public entity.

# Section 523: Serving as a director or officer of an audit client

## Introduction

### Auditor-General's requirement

- AG R523.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

## Requirements and application material

### Service as director or officer

#### Auditor-General's requirement

- AG NZ 523.3.1.1** In addition to the requirement in NZ R523.3.1, those working on behalf of the Auditor-General shall not assume a management responsibility for a public entity.
- For example, no member of an Audit Service Provider shall be a member of the governing body, or in any other way participate in the direction and control, of the public entity. Specifically, the Audit Service Provider shall not take responsibility for the financial statements of the public entity or accept a role of internal auditor. However, Audit Service Providers may provide accounting and bookkeeping services assistance in accordance with the Auditor-General's Code and the requirements of this Guide.
- Further guidance in determining whether an activity is a management responsibility is provided in paragraphs R400.13 to R400.14.

#### Auditor-General's application material

- AG NZ 523.3.1.2** Specific exemptions to the general requirement in paragraph AG NZ R523.3.1.1 above may be granted in the instance of membership of, or association with, a school Board of Trustees. The exemptions recognise the important societal role that staff of the Auditor-General or an Audit Service Provider play in the country's education system. Exemptions are documented in the Schools section of the OAG Portal.

### Service as company secretary

#### Auditor-General's requirement

- AG R523.4** Those working on behalf of the Auditor-General shall not serve as the company secretary for a public entity.

## Section 524: Employment with an audit or review client

### Introduction

#### Auditor-General's requirement

- AG R524.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

#### Auditor-General's commentary

- AG 524.2.1 Those working on behalf of the Auditor-General are employed by public entities on a regular basis. In addition, arrangements are sometimes entered into to place staff (employed by Audit Service Providers or the Auditor-General) with public entities to assist with their career development. A significant threat to independence can arise if the person employed by, or placed with, a public entity is in a position to exert direct and significant influence over the subject matter of the audit.
- AG 524.2.2 The Auditor-General is the auditor of all public entities and cannot always refuse to accept or continue an engagement to eliminate threats to independence. If there is a conflict between PES 1 and legislation relating to the statutory appointment of the Auditor-General, the Auditor-General will:
- (a) introduce safeguards to reduce the threat to independence to the extent that is reasonably possible in the circumstances; and
  - (b) disclose the threat to independence to those responsible for governance of the public entity and publicly disclose the matter in the auditor's report.
- AG 524.2.3 Where a significant threat to independence arises in respect of a person employed by, or placed with, a public entity, the Auditor-General will ensure that the threat to independence is reduced to the extent that is reasonably possible by considering one or more of the following options:
- (a) the selection of the Audit Service Provider and/or the Appointed Auditor;
  - (b) the terms and conditions of their appointment;
  - (c) the assignment of audit staff; and
  - (d) additional quality management processes.

## Auditor-General's commentary

AG 524.2.4 A particular independence threat exists when “individuals of influence” (as specified in AG 524.3 A1.2) who were previously associated with the audit of a public entity join a public entity as:

- a director or officer; or
- an employee in a position to exert significant influence over the preparation of the public entity's accounting records or the financial statements on which the Appointed Auditor will express an opinion or a conclusion, on behalf of the Auditor-General.

The particular independence threat arises because of the capability and stature of an “individual of influence” and their potential to influence the fair presentation of the financial statements through their relationship with the auditor, by means of familiarity or intimidation.

When an “individual of influence” joins a public entity, the OAG wishes to assess if the Appointed Auditor has given due consideration to the independence threat and, where considered necessary, has introduced safeguards to reduce the independence threat to an acceptable level.

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AG 524.2.5 AG R524.3 A1.1 sets out the process to inform the OAG. The process is based on the following understandings:

- The Auditor-General's requirements are not intended to replace more rigorous requirements that may be placed on former directors, partners, contractors or employees by the Audit Service Provider.
- The Appointed Auditor is required to inform the OAG when they become aware of an “individual of influence” during the normal course of the audit process. Accordingly, the Appointed Auditor is under no obligation to carry out specific enquiries to determine if an individual who joins a public entity as:
  - a director or officer; or
  - an employee in a position to exert significant influence over the preparation of the public entity's accounting records or the financial statements on which the Audit Service Provider will express an opinion or a conclusion, on behalf of the Auditor-General;

is an “individual of influence”. The existing knowledge of the Appointed Auditor and the audit team is sufficient to identify an “individual of influence”.

- AG 524.3 A1.3 describes a “period of conflict” which is the period when a threat to independence in respect of an “individual of influence” exists. The “period of conflict” will exist for a period of no more than 24 months from the date an “individual of influence” ceases their association with:
  - the audit of a public entity; or
  - the Audit Service Provider.

In many instances the “period of conflict” will be less than 24 months. The description of a “period of conflict” is supplemented by several examples to illustrate how the “period of conflict” is calculated.

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## Requirements and application material

### All audit clients

#### Auditor-General's requirements

**AG R524.3.A1** As a matter of principle, the Auditor-General's independence requirements apply equally to all public entities and to all work carried out by, or on behalf of, the Auditor-General. In practice, this means that the requirements in PES 1 that apply to "public interest entities" shall be applied to all public entities. The two main exceptions to this principle are the following:

- (a) Under section 540 *Long association of personnel (including partner rotation) with an audit client*, the Auditor-General recognises the distinction between public entities that are "public interest entities" and other public entities. The Auditor-General's rotation requirements are specified in section 540.
- (b) Under subsection 601 *Accounting and bookkeeping services*, the Auditor-General recognises that the provision of temporary accounting assistance or conducting compilation engagements is appropriate, in the interests of accountability, for small public entities within the parameters specified by the Auditor-General in subsection 601.

**AG R524.3 A1.1** The Appointed Auditor shall advise the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) the names of any individuals in paragraph AG 524.3 A1.2 (referred to as "individuals of influence") who have joined the public entity as:

- a director or officer; or
- an employee in a position to exert significant influence over the preparation of the public entity's accounting records or the financial statements on which the Audit Service Provider will express an opinion or a conclusion, on behalf of the Auditor-General.

When advising the OAG, the Appointed Auditor shall provide a description of the safeguards considered necessary to reduce the threat to independence to an acceptable level during the "period of conflict". The description of the safeguards should be accompanied by relevant contextual information such as the role of the "individual of influence" at the firm (assurance v non-assurance partner or Audit New Zealand director), whether they were in the same office as the Appointed Auditor, how long they had been a partner or Audit New Zealand director, and the role they have taken on at the public entity. Contextual information of this nature is relevant when evaluating the effectiveness of the safeguards in responding to the threats.

An important factor to be considered is the length of time between when the "individual of influence" joined the public entity and when the threat to independence has expired. Further guidance about this length of time (referred to as the "period of conflict") is provided in paragraph AG 524.3 A1.3 below.

#### Auditor-General's application material

**AG 524.3 A1.2** The individuals to be advised to the OAG by the Appointed Auditor (in respect of a public entity audited by the Audit Service Provider) under AG R524.3 A1.1 are:

- A former Auditor-General or Deputy Auditor-General;
- A former member of the OAG leadership team;
- A former member of the Audit New Zealand leadership team;
- A former Audit New Zealand director; or
- A former partner of the Audit Service Provider firm or network firm.

These individuals are referred to elsewhere in this section as "individuals of influence".

## Auditor-General's application material

AG 524.3  
A1.3

A familiarity or intimidation threat to independence will, in normal circumstances, no longer be present on the expiration of the “period of conflict”. The “period of conflict” is the period of time that commences when an individual identified in AG524.3 A1.2 joins a public entity, and ceases when the amounts or disclosures in the public entity's financial statements (that the individual or their former organisation took responsibility for in their capacity as the auditor of the public entity) are no longer disclosed in the public entity's financial statements. The period of conflict will mainly apply to comparative amounts and the associated disclosures in the public entity's financial statements.

To illustrate the application of the “period of conflict” consider the following scenarios:

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**Scenario 1:** A former Appointed Auditor resigns from their firm on 30 June 20X1. They were the Appointed Auditor of a public entity and completed their contractual obligations to the Auditor-General by signing the audit report on the 30 June 20X0 financial statements on 30 September 20X0. The former Appointed Auditor is appointed as a director of the public entity on 1 July 20X1. The appointment means that a “period of conflict” arises – starting on 1 July 20X1 and expiring when the audit report on the 30 June 20X1 financial statements is signed by the replacement Appointed Auditor. If the audit report on the 30 June 20X1 financial statements is signed on 30 September 20X1 the “period of conflict” will be 3 months.

Alternatively, if the former Appointed Auditor became a director of the public entity on 1 April 20X1 and the audit report on the 30 June 20X1 financial statements was signed by the replacement Appointed Auditor on 30 September 20X1 the “period of conflict” would be from 1 April 20X1 to 1 October 20X1 – a period of 6 months for which any safeguards would need to apply.

The “period of conflict” exists because the former Appointed Auditor has a current responsibility for the 30 June 20X1 financial statements, as a director of the public entity. This role may conflict with their previous role as the Appointed Auditor of the public entity's comparative figures that are reported in the 30 June 20X1 financial statements.

The new Appointed Auditor is required to advise the OAG as soon as they become aware of the appointment of the former Appointed Auditor as a director of the public entity, in accordance with paragraph AG R524.3 A1.1.

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**Scenario 2:** An Audit New Zealand director who is not part of the audit team responsible for the audit of a public entity audited by Audit New Zealand resigns on 30 June 20X0 and is employed as the Chief Financial Officer of the public entity on 1 July 20X0. The Appointed Auditor is required to advise the OAG as soon as they become aware of the appointment of the former Audit New Zealand director as the public entity's Chief Financial Officer, in accordance with paragraph AG R524.3 A1.1. If the public entity has a 30 June balance date the “period of conflict” will expire on the signing of the audit report on the financial statements for the year ended 30 June 20X1. In this instance, if the audit report on the 30 June 20X1 financial statements was signed on 30 September 20X1, the “period of conflict” commences on 1 July 20X0 and expires on 1 October 20X1; a period of 15 months.

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**Scenario 3:** A former member of the OAG leadership team resigns with effect from 1 July 20X0. They join the audit committee of a public entity on 1 October 20X1. The audit report on the 30 June 20X1 financial statements of the public entity was signed on 30 September 20X1. The expiration of the “period of conflict” ended with the signing of the audit report on the 30 June 20X1 financial statements. The Appointed Auditor is not required to advise the OAG of the appointment in accordance with paragraph AG R524.3 A1.1.

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## Auditor-General's application material

**Scenario 4:** The Appointed Auditor is responsible for the audit of an entity with a 30 June 20X0 balance date. They resign from their firm on 31 March 20X0 and join the entity as a director on 1 October 20X0. The “period of conflict” would expire upon the issue of the audit report on the entity’s 30 June 20X1 financial statements. Although the Appointed Auditor did not sign the audit report on the entity’s 30 June 20X0 financial statements, they were extensively involved in critical aspects of that audit, such as audit planning and the interim audit. This involvement is sufficient to associate them with the audit of the 30 June 20X0 financial statements in an audit capacity.

If the audit report on the 30 June 20X1 financial statements was signed on 30 September 20X1 the “period of conflict” would commence on 1 October 20X0 and end on 1 October 20X1; a period of 12 months.

**Scenario 5:** A former Senior or Managing Partner steps down from their role on 31 December 20X0 and retires from the Audit Service Provider firm on 30 June 20X1. On 1 July 20X1 the former Senior or Managing Partner is appointed as a director of a public entity audited by their previous firm. If the public entity has a 30 June balance date the “period of conflict” will expire on the signing of the audit report on the financial statements for the year ended 30 June 20X2. In this instance, if the audit report on the 30 June 20X2 financial statements was signed on 30 September 20X2, the “period of conflict” commences on 1 July 20X1 and expires on 1 October 20X2; a period of 15 months. The Appointed Auditor is required to advise the OAG as soon as they become aware of the appointment of the former Senior or Managing Partner as a director of the public entity, in accordance with paragraph AG R524.3 A1.1.

Although R524.7 explains that independence is compromised unless 12 months have passed since the individual was the Senior or Managing Partner, the requirements of AG R524.3 A1.1 and AG 524.3 A1.3 prevail in this instance; resulting in a 15 month “period of conflict”.

## Auditor-General's requirement

**AG R524.7** The reference to “covering a period of not less than twelve months” in paragraph R524.6(b)(i) shall be replaced with “after the period of conflict has ceased” and the reference to “twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm” in paragraph R524.7 shall be replaced with “the period of conflict has ceased”.



# Section 525: Temporary personnel assignments

## Introduction

### Auditor-General's requirement

- AG R525.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

## Requirements and application material

### General

#### Auditor-General's requirements

- AG R525.4.1** Loaned staff of the Auditor-General or loaned partners or staff of an Audit Service Provider shall not participate in the audit of a public entity (or in any other engagement in connection with a public entity) until a period of two years has elapsed from the time the individual's placement with that public entity ceased.
- AG R525.4.2** Paragraph R525.4(b) requires that the loaned personnel shall not assume management responsibilities for an entity. Further guidance in determining whether an activity is a management responsibility is provided in paragraphs R400.13 to R400.14.

#### Auditor-General's application material

- AG 525.4.3** Temporary personnel engagements do not constitute additional work over and above the work that is required, or permitted, to be carried out on behalf of the Auditor-General under legislation, as described in section 600 of this Guide.

# Section 540: Long association of personnel (including partner rotation) with an audit client

## Introduction

### Auditor-General's requirement

- AG R540.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.
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## Requirements and application material

### All audit clients

#### Auditor-General's requirements

**AG R540.4.1** If the entity is not a public interest entity, then for annual audits of 150 budgeted hours or more, and subject to the requirements of paragraph AG R540.4.2, Appointed Auditors and senior personnel involved in annual audits shall not undertake the same audit tasks for more than six cumulative years.

For public interest entities AG R540.5.1 and, where applicable, AG R540.5.2 apply.

The purpose of this requirement is to mitigate the familiarity threat to independence by maintaining the objectivity of Appointed Auditors and other members of audit teams.

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## Auditor-General's requirements

**AG R540.4.2** In implementing the requirement of paragraph AG R540.4.1, the following principles and practices apply:

- (a) The individual who is appointed as the Appointed Auditor shall not carry out the same audit for more than six cumulative years. Having completed such a period, a former Appointed Auditor will not become eligible to act again in the capacity of Appointed Auditor, or in any other capacity in relation to the audit (for example, as an engagement quality reviewer), until the expiry of two consecutive annual audits (the cooling-off period). In addition, eligibility for further appointment after the cooling-off period will require that the former Appointed Auditor shall not be involved with the entity in any professional capacity.
- (b) Other individuals associated with the audit (who are classified as a "key audit partner") shall not continue their association with the audit for more than six cumulative years. Having completed such a period, the individual shall not be associated with the engagement team or be a "key audit partner" for the entity for two years (the cooling-off period). During the cooling-off period, the individual shall not be involved with the entity in any professional capacity.
- (c) Audit staff below Appointed Auditor level shall not continue their involvement with the same audit for more than six cumulative years if they retain substantially the same responsibility in relation to the conduct of the audit, without a two-consecutive-year break. Audit staff below Appointed Auditor level may therefore be involved for more than six cumulative years with a public entity, provided their roles and responsibilities have substantially changed as a result of legitimate career development.
- (d) The Appointed Auditor shall check annually that the staffing of annual audits complies with the requirements in paragraphs AG R540.4.2(a) to AG R540.4.2(c).
- (e) Where law or regulation specifies more stringent rotation requirements, those requirements shall apply.

## Auditor-General's application material

AG 540.4.3 "Key audit partner" is defined in PES 1 as "the engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions."

For the purposes of this Guide, a "key audit partner" will be the engagement partner or director (the Appointed Auditor), a second partner(s) or director(s), the engagement quality reviewer, and, possibly, other audit partners. Specialists such as tax or information systems specialists and other technical experts are generally not key audit partners.

AG 540.4.4 The Auditor-General reserves the right to extend the rotation period, within the parameters permitted by PES 1, subject to prevailing law or regulation.

## Audit clients that are public interest entities

### Auditor-General's requirement

- AG R540.5.1** The following rotation requirements apply to the annual audits of public entities that are also public interest entities (regardless of the size of the audit):
- (a) engagement partner or director (the Appointed Auditor) – six cumulative years on, five consecutive years off;
  - (b) engagement quality reviewer – six cumulative years on, three consecutive years off; and
  - (c) other key audit partners – six cumulative years on, two consecutive years off.
- Where law or regulation specifies more stringent rotation requirements, those requirements shall apply.<sup>2</sup>
- The Auditor-General reserves the right to extend the rotation period, within the parameters permitted by PES 1, subject to prevailing law or regulation.

## Restrictions on activities during the cooling-off period

### Auditor-General's requirement

- AG R540.20** In addition to R540.20, eligibility for further appointment after the cooling-off period will require that the former key audit partner does not lead or carry out any professional and/or consulting engagements with the public entity during the cooling-off period.

# Section 600: Provision of non-assurance services to an audit client

## Introduction

### Auditor-General's requirement

- AG R600.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

<sup>2</sup> If a public entity is also subject to the NZX Listing Rules, then the audit rotation requirements will be determined by the prevailing NZX Listing Rules. Currently, the NZX Listing Rules require that "the Key Audit Partner is changed at least every five years".

### Auditor-General's commentary

AG 600.3.1 The Auditor-General is the auditor of every public entity in New Zealand. The Public Audit Act 2001 (the Act) makes the Auditor-General an officer of Parliament. In carrying out their role, the Auditor-General works exclusively in the public interest. The Act also places expectations on the Auditor-General that mean the requirements of PES 1 do not adequately meet the professional and ethical standards that are expected of the Auditor-General. Audit independence is one area where the expectations placed on the Auditor-General differ from the requirements of PES 1.

AG 600.3.2 An aspect where the expectations placed on the Auditor-General by the Act depart significantly from the requirements of PES 1 is in the ability of those working on behalf of the Auditor-General to carry out additional work over and above the work that is required, or permitted, to be carried out on behalf of the Auditor-General under legislation<sup>3</sup>. A critical factor in determining whether the additional work does not threaten independence is the appearance of this work from the perspective of a reasonable and informed third party. The reasonable and informed third party test is applied in a particular manner when determining whether additional work is able to be carried out by staff of the Auditor-General or an Audit Service Provider.

The application and the consequences of the reasonable and informed third party test in the context of additional work is described in paragraphs AG 600.3.4 to AG 600.3.5 and in paragraphs AG R600.8.1 to AG 600.8.26.

## Overseas subsidiaries of a public entity

### Auditor-General's commentary

AG 600.3.3 An overseas subsidiary of a public entity is not a public entity. Although the Auditor-General is not able to directly regulate the activities of an auditor of an overseas subsidiary of a public entity, there is an expectation that the important aspects of the Auditor-General's auditing standards will be met by the auditor of the overseas subsidiary. This will be achieved by means of the instructions issued by the group auditor.

Where the auditor of the overseas subsidiary is part of the group auditor's network firm the subsidiary auditor shall comply with the Auditor-General's auditing standards (including the requirements of the Auditor-General's Code and this Guide) because the group auditor must be able to assert compliance with the Auditor-General's auditing standards in forming their opinion on the group financial statements.

<sup>3</sup> For the avoidance of doubt, any engagements carried out under section 17 of the Public Audit Act 2001 (Other auditing services) shall not exceed the parameters of the Auditor-General's Code and this Guide.

## Provision of additional work when working for the Auditor-General

### Auditor-General's commentary

- AG 600.3.4 Section 600 of PES 1 is concerned with the provision of **non-assurance services**. When applying section 600 in the context of public sector auditing, it is essential to understand several important considerations:
- (a) The relationships that exist between different public entities, or between a public entity and a non-public entity, could mean that an Audit Service Provider's (and the Auditor-General's) independence might be threatened if the Audit Service Provider provides services to an entity that the Audit Service Provider does not audit on behalf of the Auditor-General. This situation is further discussed in paragraphs AG R600.8.1 to AG 600.8.3.
  - (b) Additional work, over and above the work that is required (or permitted) to be carried out on behalf of the Auditor-General under legislation, shall be limited to "work of an assurance nature", subject to some exceptions provided for in this Guide. Work of an assurance nature is a subset of the category of work classified in PES 1 as "non-assurance services". An explanation of the components that define "work of an assurance nature" is provided in paragraphs AG R600.8.4 to AG 600.8.8.
  - (c) Responsibility for additional work engagements rests solely with the Audit Service Provider, subject to the exceptions in paragraph AG R600.8.9.
  - (d) A pre-requisite to accepting an additional work engagement with a public entity is to obtain the acknowledgement of the contracting party that:
    - (i) the results of the work will be made available to the OAG; and
    - (ii) any matters identified will be brought to the attention of the Auditor-General, who is free to report in accordance with section 30 of the Public Audit Act 2001.
 This requirement is specified in paragraph AG R600.8.11.
  - (e) Additional work carried out in accordance with this Guide, prima facie, does not threaten audit independence. However, where the value of the additional work becomes significant when compared to the amount of the audit fee, the application of the reasonable and informed third party test will lead to a conclusion that the amount of the additional work might need to be limited. Further guidance is provided in paragraph AG R600.8.12.
  - (f) Where the subject matter of the additional work is of possible media or political interest or is sensitive in nature, the Appointed Auditor shall consult with the OAG. Further guidance is provided in paragraphs AG R600.8.13 to AG R600.8.15.
  - (g) Public disclosure of the nature of the additional work and the fees associated with the category of the engagement is required. Public disclosure is a consequence of the proper application of the reasonable and informed third party test as set out in paragraph AG R120.5 A6.1 to AG R120.5 A6.2. Requirements on the public disclosure of the nature of the additional work and the associated fees are in paragraphs AG R600.8.16 to AG R600.8.20.
  - (h) Details of all additional work are required to be reported to the OAG in accordance with paragraphs AG R600.8.21 to AG R600.8.24.
  - (i) If doubt exists whether an other engagement is permitted under this Guide, those working on behalf of the Auditor-General should consult with the OAG in accordance with paragraphs AG R600.8.25 to AG 600.8.26.
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- AG 600.3.5 Flowcharts commencing at Appendix 1 have been developed for the purpose of assisting those intending to carry out additional work to quickly understand how they should respond to the considerations described in paragraph AG 600.3.4.

### Auditor-General's commentary

- AG 600.3.6 The Auditor-General generally applies a consistent standard of independence. This means that no allowance is made for:
- (a) the nature of the additional work, which means that the same standard applies to any additional work carried out in respect of a public entity; or
  - (b) the size and nature of the public entity, or the subject of the engagement, if the subject matter does not directly relate to a public entity (for example, the subject of an engagement might be the actions of a public entity member, officer, employee, or contractor). This means that the more rigorous independence requirements in PES 1 that apply to “public interest entities” generally apply to all additional engagements carried out in respect of a public entity under the Auditor-General's Code and this Guide.

## Requirements and application material

### Accepting an engagement to provide a non-assurance service

#### Auditor-General's requirement

- AG R600.8.1** Before engaging with an entity to carry out additional work over and above the work that is required (or permitted) to be carried out on behalf of the Auditor-General under legislation, those working on behalf of the Auditor-General shall recognise and understand the relationships that exist between different public entities, or between a public entity and a non-public entity. In certain cases, a relationship might exist that could mean that an Audit Service Provider's (and the Auditor-General's) independence might be threatened if the Audit Service Provider provides services to an entity that the Audit Service Provider does not audit on behalf of the Auditor-General.

### Auditor-General's application material

- AG 600.8.2 An example of an engagement referred to under paragraph AG R600.8.1 is when an entity requests the Audit Service Provider to assist it in conducting due diligence for the possible purchase of assets from a public entity that is audited by an Audit Service Provider on behalf of the Auditor-General. In this example, it makes no difference whether:
- (a) the entity requesting the work is a public or non-public entity;
  - (b) the entity requesting the work is audited by the Audit Service Provider or has an existing client relationship with the Audit Service Provider or not;
  - (c) the work is carried out by personnel other than those involved in the audit or not; or
  - (d) the work is carried out by another member of "the network firm" – including local or overseas entities that belong to the "network firm" – or not.
- Acceptance of such a due diligence engagement would compromise the Auditor-General's independence because the Audit Service Provider (and, by implication, the Auditor-General) would have been perceived to have conflicting responsibilities – first, as the auditor of the public entity and, secondly, as an advisor to a third party transacting with the public entity. Such a conflict is damaging to the independence of the Audit Service Provider and the Auditor-General, and would have compromised the objectivity of the Auditor-General had they been requested to investigate any issues surrounding the transaction at a later date. No safeguards applied by the Audit Service Provider would have reduced the threat to independence to an acceptable level.
- There are numerous variations to this example that would not be permitted because the threat to independence is unacceptable.

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- AG 600.8.3 A flowchart to assist in determining what services Audit Service Providers can provide to other entities (whether they be public or non-public entities) is included as Appendix 2.1.
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### Auditor-General's requirement

- AG R600.8.4** Any work provided in relation to a public entity by the Appointed Auditor or their firm, over and above the work that is required (or permitted) to be carried out on behalf of the Auditor-General under legislation, shall generally be "work of an assurance nature", unless otherwise provided for in this Guide.
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### Auditor-General's application material

- AG 600.8.5 When referring to "work of an assurance nature", a plain English meaning of the term "assurance" is used. The *Collins English Dictionary – Essential Edition 2019* defines "assurance" as "a statement or assertion intended to inspire confidence".
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**Auditor-General's application material**

AG 600.8.6	<p>The meaning of “assurance” in paragraph AG 600.8.5 implies the presence of several components when applied to “work of an assurance nature”. The components are:</p> <ul style="list-style-type: none"> <li>(a) the <b>independence</b> of the party providing the assurance (the assurer) from the subject matter over which assurance is provided – in other words, the assurer cannot have a role in creating, developing, or otherwise taking responsibility for the subject matter;</li> <li>(b) <b>subject matter</b> over which assurance is provided;</li> <li>(c) the presence of generally accepted or agreed <b>criteria</b> against which to benchmark the subject matter;</li> <li>(d) the <b>competence</b> of the assurer to carry out the work; and</li> <li>(e) a <b>report</b> arising from that work.</li> </ul>
AG 600.8.7	<p>Engagements of an assurance nature include:</p> <ul style="list-style-type: none"> <li>(a) engagements that involve the formal expression on an opinion;</li> <li>(b) agreed-upon-procedures;</li> <li>(c) real-time independent quality assurance;</li> <li>(d) probity engagements; and</li> <li>(e) activities involving the examination, investigation, or inquiry into matters of concern.</li> </ul>
AG 600.8.8	<p>A flowchart to assist in determining whether the engagement is “work of an assurance nature” is included as Appendix 2.3.</p>

**Auditor-General's requirements**

<b>AG R600.8.9</b>	<p>The Audit Service Provider shall take sole responsibility for any additional work engagements, subject to two exceptions:</p> <ul style="list-style-type: none"> <li>(a) where the engagement relies, in part or in total, on evidence gained from the work that is required (or permitted) to be carried out on behalf of the Auditor-General under legislation; or</li> <li>(b) where the Auditor-General requires the engagement to be carried out on their behalf.</li> </ul>
<b>AG R600.8.10</b>	<p>Subject to the exceptions in paragraph AG R600.8.9, the terms of engagement and the report for additional work engagements shall be signed in the name of the Audit Service Provider.</p>
<b>AG R600.8.11</b>	<p>The Audit Service Provider shall obtain the acknowledgement of the contracting party, that is a public entity, that:</p> <ul style="list-style-type: none"> <li>(a) the results of the additional work will be made available to the OAG; and</li> <li>(b) any matters identified will be brought to the attention of the Auditor-General, who is free to report in accordance with section 30 of the Public Audit Act 2001.</li> </ul>

## Auditor-General's requirements

**AG R600.8.12** The Appointed Auditor shall inform the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) if it is expected that the total amount of additional work carried out in accordance with this Guide is likely to exceed 100% of the annual audit fee in any one reporting period, for an entity audited on behalf of the Auditor-General.

The OAG will consider whether any action needs to be taken to eliminate or mitigate any threat to independence arising from the amount of additional work engagements. Matters to be considered by the OAG include:

- (a) the extent to which the total amount of the additional work is likely to exceed the annual audit fee;
- (b) whether the additional work is largely confined to one reporting period; and
- (c) the extent to which the additional work will enhance public sector accountability. For example, will the public entity be publicly communicating about the project or activity, including the findings of the additional work carried out by the Audit Service Provider.

**AG R600.8.13** Those working on behalf of the Auditor-General shall consult with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) before accepting or finalising any terms of reference for any additional engagement where there is possible media or political interest in the subject matter of the engagement, or where the matter is generally of a sensitive nature. Consultation might include discussing whether:

- (a) the engagement should be accepted in the first instance and, if so, the most appropriate party to conduct the engagement;
- (b) the terms of reference are complete and all key matters or areas have been included within the scope of the engagement; and/or
- (c) the engagement letter (which specifies the terms of the engagement) includes any unreasonable restrictions on distribution of the report arising from the engagement.

## Auditor-General's application material

**AG 600.8.14** It is important that, before accepting such an engagement, proper consideration is given to any political risks, the wider interests of the Auditor-General, and any implications for the wider public sector. This might include consideration of the following matters:

- (a) Has the entity been involved in any political or public controversy, or does it operate in a politically sensitive environment?
- (b) Are there other agencies or institutions already involved (for example, a central agency, a select committee, or a regulator)?
- (c) Could the work have implications for other entities in the public sector (for example, if a probity matter concerns a board member who is also a director of other entities in the public sector)?
- (d) Is the entity subject to organisational, legislative, or other change?
- (e) Has the Auditor-General carried out any previous work in relation to this entity (for example, an inquiry into probity issues), or on the subject matter of the engagement (for example, a special study of consultation procedures)?
- (f) Has any performance audit or inquiry been signalled by the Auditor-General?
- (g) How does the entity intend making use of any report arising from the engagement?
- (h) Is the report likely to be used in the context of any legal or other dispute the entity has with other parties?

## Auditor-General's requirements

**AG R600.8.15** Where there is possible media or political interest in the subject matter of the engagement, or the matter is generally of a sensitive nature, a copy of the draft report shall be provided to the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) for clearance before it is sent to the public entity. Once the final report is signed, a copy shall be sent to the OAG within 24 hours.

**AG R600.8.16** Public disclosure of the nature and amount of the additional work shall be made to provide transparency to those placing reliance on the assurance provided on behalf of the Auditor-General. Such disclosure is a consequence of the proper application of the reasonable and informed third party test (as set out in paragraphs AG R120.5 A6.1 and AG R120.5 A6.2).

## Auditor-General's application material

**AG 600.8.17** The Auditor-General and those who carry out work on their behalf can have numerous and separate interactions with a public entity. Those interactions include:

- (a) the annual audit carried out by the Appointed Auditor;
- (b) other work carried out by the Appointed Auditor or their firm;
- (c) performance audits or inquiries carried out by, or on behalf of, the Auditor-General;
- (d) other auditing services carried out by Audit New Zealand for a public entity that is audited by another Audit Service Provider; and
- (e) the audit of a subsidiary of a public entity group by a private sector auditor when the subsidiary is not required to be separately audited by the Auditor-General.

**AG 600.8.18** Public disclosure of the additional work in the context of the audit of an entity's (or entity group's) financial statements is generally limited to other work carried out by the Appointed Auditor or their firm for the public entity or the public entity group.

An exception to this general expectation is where a subsidiary of an entity group is audited by another auditor and where that subsidiary does not separately report its financial statements publicly, and the accompanying disclosure of the additional work.

A public sector peculiarity is where Audit New Zealand also carries out other auditing services for a public entity that is audited by another Audit Service Provider. Public disclosure of the work carried out by Audit New Zealand is appropriate in the interests of transparency.

In the context of an annual audit, public disclosure is concerned with the additional work carried out by the Appointed Auditor or their firm, and any work carried out by Audit New Zealand, rather than the total of the work carried out by the Auditor-General and those who carry out work on their behalf.

Public disclosure of work carried out by an Audit Service Provider in accordance with this Guide is not required if:

- (a) the Audit Service Provider audits a component of a group; and
- (b) provides work to the parent or to another component of the group that is not audited by the Audit Service Provider.

<b>Auditor-General's requirements</b>	
<b>AG R600.8.19</b>	<p>Public disclosure of fees paid to the auditor is required where legislation or a financial reporting standard requires the reporting entity to include disclosure in the financial statements. It is highly desirable that this disclosure is disaggregated to separate the various engagements the reporting entity has with the Audit Service Provider and any work carried out by Audit New Zealand. The disclosure should, wherever possible, separate out the following engagements:</p> <ul style="list-style-type: none"> <li>(a) the annual audit;</li> <li>(b) description of the separate other work engagements and their fees – for example, half-yearly reviews, investigating accountant reviews as part of an initial public offering, assurance engagements required by other parties (such as the Commerce Commission), work of an assurance nature with the public entity (such as an independent quality assurance review of an information technology project), etc; and</li> <li>(c) any “work of an assurance nature” carried out by Audit New Zealand.</li> </ul>
<b>AG R600.8.20</b>	<p>The relevant auditing standard also requires the auditor to include a statement in the audit report as to the existence of any relationship (other than that of auditor) that the auditor has with, or any interests that the auditor has in, the entity. This disclosure shall include the matters in the financial statements referred to paragraph AG R600.8.19 in a summarised form, together with the additional disclosures of any relationship (other than that of auditor) with, or any interests in, the public entity.</p>
<b>AG R600.8.21</b>	<p>Appointed Auditors shall advise the OAG, as part of their end of audit obligations, details of all other engagements between the public entity and the Audit Service Provider carried out during the period covered by the annual audit.</p>
<b>AG R600.8.22</b>	<p>For each other engagement referred to in paragraph AG R600.8.21, Appointed Auditors shall send the following information to the OAG:</p> <ul style="list-style-type: none"> <li>(a) a copy of the report issued for the engagement, or a statement advising that the report has yet to be issued;</li> <li>(b) if applicable, a copy of the information on which the report has been issued; and</li> <li>(c) the total fee for the engagement and the actual fees billed to the public entity during the period covered by the annual audit.</li> </ul>
<b>AG R600.8.23</b>	<p>Where the total fees for all other engagements during the reporting period differ from those disclosed in the financial statements, a reconciliation shall accompany the information provided under paragraph AG R600.8.22 to show the reason for the difference. An example of a report that can be used for this reconciliation is in Appendix 3.</p>
<b>AG R600.8.24</b>	<p>For engagements where there is possible media or political interest in the subject matter of the engagement, or the matter is generally of a sensitive nature, a copy of the draft report shall be provided to the OAG (using the <a href="mailto:Independence@oag.parliament.nz">Independence@oag.parliament.nz</a> email address) for clearance before it is sent to the entity. A copy of the final report shall be sent to the OAG within 24 hours of signing the report.</p>

## Auditor-General's requirements

**AG R600.8.25** If doubt exists whether an other engagement is permitted under the Auditor-General's Code and this Guide, those working on behalf of the Auditor-General shall consult with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address). They shall support their recommendation with an analysis that takes the matters identified in paragraph AG 600.3.4 into account. The flowcharts in Appendices 1, 2.1, 2.2, 2.3 and 2.4 may assist with the analysis.

## Auditor-General's application material

AG 600.8.26 If an other engagement clearly falls within the scope of the Auditor-General's Code and this Guide, those working on behalf of the Auditor-General are authorised to accept and carry out the other engagement without prior consultation with the OAG.

## Materiality in relation to financial statements

### Auditor-General's requirement

**AG R600.10 A1.1** Auditing is a public interest activity. In applying materiality to additional work carried out for a public entity, the primary consideration is the appearance of this work from the perspective of a reasonable and informed third party. Such a consideration is centred around whether the confidence of a reasonable and informed third party in the report issued by the auditor might be diminished by the nature and extent of the additional work carried out for a public entity. Accordingly, those working on behalf of the Auditor-General shall not refer to ISA (NZ) 320, *Materiality in planning and performing an audit*, and ISRE (NZ) 2400 (Revised), *Engagements to review historical financial statements* when assessing whether additional work can be carried out for a public entity.

### Auditor-General's application material

AG 600.10 A1.2 In making decisions about the additional work that can be carried out for a public entity, the Auditor-General has taken the following measures:

- (a) requiring those working on behalf of the Auditor-General to understand the relationships that exist between different public entities, or between a public entity and a non-public entity – these relationships could mean that an Audit Service Provider's (and the Auditor-General's) independence might be threatened if the Audit Service Provider provides services to an entity that the Audit Service Provider does not audit on behalf of the Auditor-General;
- (b) primarily limiting the additional work to work of an assurance nature;
- (c) requiring auditors to inform the OAG if the value of additional work might exceed 100% of the annual audit fee in any one reporting period;
- (d) requiring public disclosure of the nature and amount of additional work – in the audit report and in the notes to the financial statements; and
- (e) reserving the power of the Auditor-General to publicly report the findings of the other work under section 30 of the Public Audit Act 2001.

## Providing advice and recommendations

### Auditor-General's commentary

- AG 600.11  
A1
- The Auditor-General generally applies a consistent standard of independence. This means that no allowance is made for:
- (a) the nature of the additional work, which means that the same standard applies to any additional work carried out in respect of a public entity; and
  - (b) the size and nature of the public entity, or the subject of the engagement, if the subject matter does not directly relate to a public entity (for example, the subject of an engagement might be the actions of a public entity member, officer, employee, or contractor). This means that the more rigorous independence requirements in PES 1 that apply to “public interest entities” generally apply to all additional engagements carried out in respect of a public entity under the Auditor-General's Code and this Guide.
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## Audit clients that are public interest entities

### Auditor-General's commentary

- AG 600.15  
A2
- The Auditor-General generally applies a consistent standard of independence. This means that no allowance is made for:
- (a) the nature of the additional work, which means that the same standard applies to any additional work carried out in respect of a public entity; and
  - (b) the size and nature of the public entity, or the subject of the engagement, if the subject matter does not directly relate to a public entity (for example, the subject of an engagement might be the actions of a public entity member, officer, employee, or contractor). This means that the more rigorous independence requirements in PES 1 that apply to “public interest entities” generally apply to all additional engagements carried out in respect of a public entity under the Auditor-General's Code and this Guide.
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## Self-review threats

### Auditor-General's commentary

- AG 600.16  
A2
- The Auditor-General generally applies a consistent standard of independence. This means that no allowance is made for:
- the nature of the additional work, which means that the same standard applies to any additional work carried out in respect of a public entity; and
  - the size and nature of the public entity, or the subject of the engagement, if the subject matter does not directly relate to a public entity (for example, the subject of an engagement might be the actions of a public entity member, officer, employee, or contractor). This means that the more rigorous independence requirements in PES 1 that apply to “public interest entities” generally apply to all additional engagements carried out in respect of a public entity under the Auditor-General's Code and this Guide.
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## Addressing threats

### All audit clients

#### Auditor-General's requirement

**AG R600.18 A1.1** Those who carry out work on behalf of the Auditor-General shall not use the internal separation of activities within a firm as a safeguard to reduce the threat to compliance with the fundamental principles to an acceptable level.

Internal separation is sometimes used by firms as a safeguard to permit different (and sometimes incompatible) activities to be carried out for an entity. An example of internal separation is where different partners and engagement teams within the same firm provide non-assurance services for an entity that is also audited by the firm.

The internal separation safeguard can never mitigate the *perceived* compliance requirement. The perceived compliance requirement is met through the application of the reasonable and informed third party test in paragraphs AG R120.5 A6.1 and AG R120.5 A6.2.

#### Auditor-General's commentary

AG 600.18 A1.2 If the acceptance of a non-assurance service is being considered, and a safeguard is likely to be needed to enable the non-assurance service to be accepted, then it is very unlikely that the service can be accepted under the Auditor-General's Code and this Guide. The main reason for this situation is that the non-assurance service is unlikely to be "work of an assurance nature".

Refer to paragraph AG 600.3.4 that describes the framework over the provision of additional work when working for the Auditor-General.

AG 600.18 A1.3 The Auditor-General generally applies a consistent standard of independence. This means that no allowance is made for:

- (a) the nature of the additional work, which means that the same standard applies to any additional work carried out in respect of a public entity; and
- (b) the size and nature of the public entity, or the subject of the engagement, if the subject matter does not directly relate to a public entity (for example, the subject of an engagement might be the actions of a public entity member, officer, employee, or contractor). This means that the more rigorous independence requirements in PES 1 that apply to "public interest entities" generally apply to all additional engagements carried out in respect of a public entity under the Auditor-General's Code and this Guide.

## Communication with those charged with governance regarding non-assurance services

### All audit clients

#### Auditor-General's requirement

- AG R600.19 A1** In addressing the provisions in paragraphs 600.19 A1 to 600.25 A1 Appointed Auditors shall communicate to those charged with governance of every public entity (irrespective of whether the public entity is also a public interest entity) the following details of each additional work engagement proposed to be carried out (over and above the work that is required (or permitted) to be carried out on behalf of the Auditor-General under legislation). The details to be communicated, that will normally be included in an engagement letter for the additional work, include:
- the nature and scope of the service to be provided;
  - the basis and amount of the proposed fee;
  - a statement that the engagement complies with the Auditor-General's Code of Ethics;
  - a statement that the results of the work:
    - will be made available to the OAG; and
    - any that any significant matters identified will be brought to the attention of the Auditor-General, who is free to report in accordance with section 30 of the Public Audit Act 2001; and
  - public disclosure of the nature of the additional work and the associated fees will be made (either in the entity's published financial statements or in the auditor's report).

### Considerations for certain related entities

#### Auditor-General's requirements

- AG R600.26.1** Those working on behalf of the Auditor-General shall apply the requirement in AG R600.26.2 and should refer to the application material in AG 600.26.3. In combination these paragraphs override the requirements of R600.26.
- AG R600.26.2** The relationships between a public entity that is audited on behalf of the Auditor-General and other public or non-public entities can be complex. Threats to audit independence can arise when providing services to entities that an Audit Service Provider does not audit on behalf of the Auditor-General. As a consequence, those working on behalf of the Auditor-General shall retain an awareness of such relationships when deciding whether it is appropriate to provide services to entities that they do not audit on behalf of the Auditor-General.

#### Auditor-General's application material

- AG 600.26.3 The flowchart in Appendix 2.1 should be referred to by those working on behalf of the Auditor-General to assist in determining what services can be provided to other entities (whether they be public or non-public entities).



## Subsection 601: Accounting and bookkeeping services

### Introduction

#### Auditor-General's commentary

AG 601.1 The provision of limited accounting and bookkeeping services is permitted to be carried out by those working on behalf of the Auditor-General. The provision of these limited services departs from the general principles in the Auditor-General's Code and in this Guide by:

- (a) permitting other engagements that are not of an assurance nature; and
- (b) making a distinction between small entities that are not public interest entities and public interest entities.

The departure from the general principles in the Auditor-General's Code and in this Guide is justified because the Auditor-General is the auditor of many "micro" public entities, and the only way those public entities can reasonably comply with their statutory reporting requirements is to have those working on behalf of the Auditor-General to assist in compiling the financial statements.

AG 601.2 The provision of the limited accounting and bookkeeping services, in accordance with the requirements of the Auditor-General's Code and this Guide, does not present an unacceptable threat to audit independence.

### Requirements and application material

#### Potential threats arising from the provision of accounting and bookkeeping services

Audit clients that are not public interest entities

#### Auditor-General's requirements

**AG R601.5 A2.1** None of the examples of accounting and bookkeeping services in paragraph 601.5 A2 that are routine or mechanical in nature shall be carried out by those working on behalf of the Auditor-General, apart from the preparation of financial statements and the related notes based on the entity's approved trial balance or source records. The latter service is referred to as a compilation engagement.

**AG R601.5 A2.2** Under paragraphs AG 601.5 A2.4 to AG R601.5.4 A2.7, compilation engagements shall only be carried out for small public entities that are not public interest entities and whose size precludes the employment of suitably qualified personnel.

**AG R601.5 A2.3** For the removal of doubt, those working on behalf of the Auditor-General shall not provide any payroll services to public entities.

### Auditor-General's commentary

AG 601.5  
A2.4 Those working on behalf of the Auditor-General may provide temporary accounting assistance and compile the financial statements subject to compliance with paragraphs AG R601.5 A2.5 to AG R601.5 A2.7 below.

### Auditor-General's requirements

**AG R601.5  
A2.5** When conducting temporary accounting assistance and compilation engagements, those working on behalf of the Auditor-General shall ensure that:

- (a) the public entity accepts the responsibility for the financial statements (including the accounting policies) as its own;
- (b) those working on behalf of the Auditor-General who carry out the temporary accounting assistance and/or compilation engagement do not function as employees or part of management in conducting the operations of the organisation;
- (c) the nature of the temporary accounting assistance and/or compilation engagement is straightforward and does not require those working on behalf of the Auditor-General to exercise their professional judgement (an example where professional judgement is not required would be the preparation of cash-based financial statements for very small entities);
- (d) processes and procedures are put in place to mitigate the risk of those working on behalf of the Auditor-General auditing their own work (for instance, their work is reviewed by a more senior audit staff member); and
- (e) the annual audit shall be carried out in keeping with the Auditor-General's auditing standards, which includes obtaining sufficient and appropriate audit evidence to enable the Appointed Auditor to form an objective opinion on the financial statements.

**AG R601.5  
A2.6** Those working on behalf of the Auditor-General shall only provide temporary accounting assistance or conduct compilation engagements for small public entities that are not public interest entities and whose size would tend to preclude the employment of suitably qualified personnel.

**AG R601.5  
A2.7** When carrying out these engagements, those working on behalf of the Auditor-General shall not encourage a situation where the public entity becomes reliant on the staff of the Auditor-General or Audit Service Provider for the provision of the service. Rather, a situation shall be fostered where the public entity becomes increasingly self-reliant in preparing its own financial statements.

### Auditor-General's application material

AG 601.5  
A2.8 From time to time, small public entities purchase off-the-shelf accounting software and experience "set-up" difficulties. If those working on behalf of the Auditor-General have a good understanding of the accounting software, and the accounting software has not been developed by the Audit Service Provider, it is appropriate to provide assistance to public entity staff with the initial set-up of the accounting software but not to provide ongoing support to the public entity staff.

Audit clients that are public interest entities

**Auditor-General's requirement**

**AG R601.7** Those working on behalf of the Auditor-General shall not provide accounting and bookkeeping services to public interest entities or to divisions or related entities of public interest entities.

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## Subsection 602: Administrative services

### Introduction

**Auditor-General's requirement**

**AG R602.1** Those working on behalf of the Auditor-General shall not provide administrative services to public entities. Administrative services do not meet the description of “work of an assurance nature” in paragraphs AG R600.8.4 to AG 600.8.8.

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## Subsection 603: Valuation services

### Introduction

**Auditor-General's requirements**

**AG R603.1.1** Those working on behalf of the Auditor-General shall not provide valuation services to public entities. This prohibition exists irrespective of the materiality of the asset or liability to the financial statements.

**AG R603.1.2** Valuation services do not meet the description of “work of an assurance nature” in paragraphs AG R600.8.4 to AG 600.8.8.

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## Subsection 604: Tax services

### Introduction

#### Auditor-General's commentary

- AG 604.1.1 Unacceptable self-review and advocacy threats to audit independence arise from the provision of tax services by those working on behalf of the Auditor-General. Apart from the different independence expectations placed on the Auditor-General by the Public Audit Act 2001, the two assumptions set out in paragraph 604.6 A1 do not generally hold true in the New Zealand context. Those assumptions are:
- (a) ***Tax returns are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice.*** This assumption implies that existing tax law is readily able to be interpreted so that tax outcomes will not be materially different, irrespective of who calculates the tax outcome. In New Zealand, tax law is subject to interpretation and, as a consequence, tax outcomes can vary significantly.
  - (b) ***Tax returns are subject to whatever review or approval process the tax authority considers appropriate.*** This assumption suggests that tax authorities check and approve tax returns when they are received. In New Zealand, the Inland Revenue Department may check a tax return. That check is no guarantee that the tax return is correct, as the Inland Revenue Department has the power to amend a tax assessment it has previously issued, or it can go back through returns for a number of years to investigate an entity's tax situation.

#### Auditor-General's requirements

- AG R604.1.2** Tax services provided by those working on behalf of the Auditor-General shall be limited to "work of an assurance nature". In most instances, this limitation restricts tax services to a review of a public entity's tax computations or returns before filing.
- AG R604.1.3** Before accepting an engagement to provide tax services of an assurance nature, those working on behalf of the Auditor-General shall assess whether the public entity has the in-house capability to determine its tax position. If the public entity does not have the required capability and has prepared "first draft" tax computations or returns for review that those working on behalf of the Auditor-General regard as unreliable, this would effectively mean those working on behalf of the Auditor-General are assuming a management responsibility. Assumption of a management responsibility is specifically prohibited under paragraph R400.13.

**Auditor-General’s application material**

AG 604.1.4

**Examples of tax services that are permitted and not permitted under this Guide are summarised below.**

Examples of permitted tax services	Examples of prohibited tax services
<ul style="list-style-type: none"> <li>• Reviews of a public entity’s tax returns to the Inland Revenue or the public entity’s underlying tax computations, subject to paragraph AG R604.1.3.</li> <li>• Referral to generic tax requirements in accordance with published Inland Revenue policy</li> </ul>	<ul style="list-style-type: none"> <li>• Preparation of a public entity’s tax returns or the underlying tax computations.</li> <li>• Assisting a public entity to obtain binding or non-binding rulings from the Inland Revenue.</li> <li>• Preparation of calculations of current and deferred tax liabilities (or assets) for a public entity.</li> <li>• Provision of tax planning and other tax advisory services to a public entity.</li> <li>• Provision of tax valuation services to a public entity.</li> <li>• Acting as the tax agent for a public entity.</li> <li>• Providing assistance to a public entity with a tax investigation.</li> <li>• Subject to paragraphs AG 604.20 A1.1, AG R604.20 A1.2 and AG R604.20 A1.3 providing assistance to a public entity in the resolution of tax disputes.</li> </ul>

**E. Assistance in the resolution of tax disputes**

**Auditor-General’s commentary**

AG 604.20 A1.1

In some instances, an Audit Service Provider might have advised a public entity on tax matters prior to the Audit Service Provider becoming the auditor of the public entity. Where those tax matters are questioned by the Inland Revenue Department, it might be pragmatic for the Audit Service Provider to assist the public entity in resolving the matter, if:

- (a) the public entity does not have its own resources to address the demands of the Inland Revenue Department; and
- (b) it is impractical to use any firm other than the Audit Service Provider because of the Audit Service Provider’s specialised understanding of the public entity’s taxation issues.

### Auditor-General's requirements

<b>AG R604.20 A1.2</b>	If the situation in paragraph AG 604.20 A1.1 arises, the Appointed Auditor shall advise the OAG (using the <a href="mailto:Independence@oag.parliament.nz">Independence@oag.parliament.nz</a> email address).
<b>AG R604.20 A1.3</b>	If, during the course of the engagement, the Audit Service Provider considers that it could assume an advocacy role for the public entity, it shall inform the OAG (using the <a href="mailto:Independence@oag.parliament.nz">Independence@oag.parliament.nz</a> email address). Any threat to independence will be assessed and an appropriate course of action will be agreed to either eliminate the threat to independence or to reduce the threat to an acceptable level.

## Subsection 605: Internal audit services

### Introduction

#### Auditor-General's commentary

AG 605.1	<p>The provision of internal audit services, or the provision of support to an established internal audit (or similar) function, to a public entity might result in an unacceptable “self-review” threat to audit independence. In particular, a “self-review” threat emerges when applying the reasonable and informed third party test when assessing independence in appearance under paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the application material in paragraph AG 120.15 A1.5.</p> <p>The threat to audit independence may be reduced to an acceptable level if personnel who are not involved in the work being carried out on behalf of the Auditor-General enter into a temporary personnel assignment in accordance with Section 525 of this Guide.</p>
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## Requirements and application material

### Potential threats arising from the provision of internal audit services

All audit clients

#### Auditor-General's requirement

<b>AG R605.4 A1</b>	<p>Internal audit services shall not be provided to a public entity by:</p> <ol style="list-style-type: none"> <li>the Auditor-General;</li> <li>the Deputy Auditor-General;</li> <li>any employee of the Auditor-General; or</li> <li>any person, firm, or network firm where that person, firm, or network firm is carrying out work on behalf of the Auditor-General.</li> </ol>
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## Subsection 606: Information technology systems services

### Introduction

#### Auditor-General's commentary

AG 606.1 Subject to paragraphs AG 606.4 A2.1 and AG R606.4 A2.2, those working on behalf of the Auditor-General may carry out engagements of an assurance nature in respect of information technology systems services. When assessing whether an engagement is “work of an assurance nature”, staff of the Auditor-General and Audit Service Providers shall refer to the guidance in paragraphs AG R600.8.4 to AG 600.8.8.

### Potential threats arising from the provision of IT systems services

#### Auditor-General's commentary

AG 606.4 A2.1 With reference to paragraph 606.4 A2 (c), those working on behalf of the Auditor-General might receive requests from public entities to provide assistance in installing off-the-shelf accounting software that has not been developed by the Audit Service Provider. If those working on behalf of the Auditor-General have a good understanding of the accounting software, it is appropriate to provide assistance to public entity staff with the initial set-up of the accounting software but not to provide ongoing support to the public entity staff.

#### Auditor-General's requirement

**AG R606.4 A2.2** Those working on behalf of the Auditor-General shall only provide assistance with the initial set-up of off-the-shelf accounting software that has not been developed by the Audit Service Provider, to small public entities that are not public interest entities and whose size would tend to preclude the employment of suitably qualified personnel.

## Subsection 607: Litigation support services

### Introduction

#### Auditor-General's requirement

**AG R607.1.1** Those working on behalf of the Auditor-General shall not provide litigation support services to public entities. Such services create an “advocacy” threat to independence that could not be reduced to an acceptable level by the application of any safeguards.

### Auditor-General's application material

- AG 607.1.2 The prohibition on those working on behalf of the Auditor-General entering into engagements that involve the provision of litigation support services to public entities is reinforced by the possibility that the litigation might involve a dispute between two public entities, both of which are subject to audit by the Auditor-General. Other disputes could arise between a public entity and its stakeholders – and the stakeholder group might be reliant on the expression of an independent opinion by the Auditor-General. In these circumstances, it is essential that the independence of the Auditor-General is maintained through the Audit Service Provider not accepting any engagements involving the provision of litigation support services.
- 
- AG 607.1.3 Litigation support services do not meet the description of “work of an assurance nature” in paragraphs AG R600.8.4 to AG 600.8.8.
- 

## Subsection 608: Legal services

### Introduction

#### Auditor-General's requirement

- AG R608.1.1** Those working on behalf of the Auditor-General shall not provide legal services to public entities. Such services create “self-review” and “advocacy” threats to independence that could not be reduced to an acceptable level by the application of any safeguards.
- 

#### Auditor-General's application material

- AG 608.1.2 Legal services do not meet the description of “work of an assurance nature” in paragraphs AG R600.8.4 to AG 600.8.8.
- 

## Subsection 609: Recruiting services

### Introduction

#### Auditor-General's requirement

- AG R609.1 Those working on behalf of the Auditor-General shall not provide recruiting services to public entities. Recruiting services do not meet the description of “work of an assurance nature” in paragraphs AG R600.8.4 to AG 600.8.8.
-



## Subsection 610: Corporate finance services

### Introduction

#### Auditor-General's requirement

- AG R610.1.1** Those working on behalf of the Auditor-General shall not provide corporate finance services to public entities, unless those services:
- (a) meet the description of “work of an assurance nature” in paragraphs AG R600.8.4 to AG 600.8.8; and
  - (b) do not result in those working on behalf of the Auditor-General assuming a management responsibility under paragraph R400.13.

#### Auditor-General's application material

- AG 610.1.2 The provision of corporate finance services to public entities will normally present an unacceptable threat to audit independence because:
- (a) Those working on behalf of the Auditor-General are likely to assume a management responsibility. This is because public entity management will be persuaded by the expert advice provided to them.
  - (b) Such engagements can encroach on the applicable government or local authority policy to which the public entity is required to adhere. Commenting on policy is expressly prohibited under section 16(4) of the Public Audit Act 2001.
  - (c) Corporate finance activities by their nature are of possible media or political interest, or are generally sensitive. Involvement in such areas needs to be carefully assessed and managed.

## Section 800: Reports on special purpose financial statements that include a restriction on use and distribution (audit and review engagements)

### Introduction

#### Auditor-General's requirements

- AG R800.1** The Auditor-General and those who carry out work on their behalf shall comply with:
- (a) the fundamental principles set out in section 110 and apply the conceptual framework set out in section 120; and
  - (b) the Auditor-General's additional requirements that are specified in relation to the fundamental principles in section 110 and that apply to the conceptual framework in section 120.

## Auditor-General's requirements

- AG R800.2** Reports issued by, or on behalf of, the Auditor-General that are intended for a wide audience shall not include a restriction on use and distribution.
- A restriction on use and distribution in a report issued by, or on behalf of, the Auditor-General shall only be included with the express permission of the OAG. In some instances, prior OAG permission might have been provided. In other instances, OAG permission might need to be sought (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address).

## Requirements and application material

### General

#### Auditor-General's requirement

- AG R800.3** Where approval has been obtained to include a restriction on use and distribution under paragraph AG R800.2 the Auditor-General and those who carry out work on their behalf shall fully comply with the independence requirements in Part 4A, together with the additional requirements of the Auditor-General.

## Part 4B – Independence for assurance engagements other than audit and review engagements

#### Auditor-General's commentary

Part 4B does not apply to the Auditor-General.

The Auditor-General is the auditor of every public entity in New Zealand. The Public Audit Act 2001 (the Act) makes the Auditor-General an Officer of Parliament. In carrying out their role, the Auditor-General works exclusively in the public interest. The Act also places expectations on the Auditor-General that mean the requirements of PES 1 (Professional and Ethical Standard 1) do not adequately meet the professional and ethical standards that are expected of the Auditor-General. Audit independence is one area where the expectations placed on the Auditor-General exceed the requirements of PES 1.

Part 4B distinguishes assurance engagements from audit and review engagements, and permits assurance practitioners to apply a less exacting process in determining the independence that should apply to such engagements.

Instead, the Auditor-General and those who carry out work on their behalf are required to fully comply with the independence requirements in Part 4A, together with the additional requirements of the Auditor-General, as specified in this Guide.

# Glossary and Effective date in PES 1

## Glossary

Term	Auditor-General’s interpretation
<p>Assurance client</p> <p><i>The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).</i></p>	<p>The term “client” is frequently used in standards regulating assurance engagements and refers to the entity or person subject to assurance procedures. However, it is recognised that the work carried out by assurance practitioners, and the resulting reports are intended for users who have no role in the management or governance of the entity. In the context of the Auditor-General, this is Parliament and the citizens of New Zealand.</p>
<p>Assurance engagement</p> <p><i>An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in or to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).</i></p>	<p>For the purposes of this Guide, any references to an assurance engagement in PES 1 are to be applied to all work carried out on behalf of the Auditor-General under sections 15 to 19 of the Public Audit Act 2001. This is despite the fact that the work might not meet the definition of an assurance engagement in PES 1.</p>
<p>[NZ] Assurance practitioner</p> <p><i>A person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements or related services.</i></p>	<p>For the purpose of this Guide, any references to “assurance practitioner” in PES 1 is to be applied to any individuals carrying out work under sections 15 to 19 of the Public Audit Act 2001 for, or on behalf of, the Auditor-General despite the fact that they might not be carrying out work that meets the definition of an assurance engagement in PES 1.</p>
<p>[NZ] Assurance services</p> <p><i>Comprise of any assurance engagements performed by an assurance practitioner.</i></p>	<p>A significant proportion of the work carried out on behalf of the Auditor-General does not meet the PES 1 definition of an assurance engagement. However, for the purposes of this Guide, any references to assurance services in PES 1 are to be applied to all work carried out under sections 15 to 19 of the Public Audit Act 2001 on behalf of the Auditor-General. This is despite the fact that the work might not meet the definition of an assurance service in PES 1.</p>

Term	Auditor-General's interpretation
<p>[NZ] Audit client</p> <p><i>An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.20.)</i></p>	<p>The term “client” is frequently used in standards regulating assurance engagements and refers to the entity or person subject to assurance procedures. However, it is recognised that the work carried out by assurance practitioners, and the resulting reports are intended for users who have no role in the management or governance of the entity. In the context of the Auditor-General, this is Parliament and the citizens of New Zealand.</p>
<p>Financial statements</p> <p><i>A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.</i></p> <p><i>The term does not refer to specific elements, accounts or items of a financial statement.</i></p>	<p>PES 1 refers to financial statements. The statements prepared by many New Zealand public entities include financial and non-financial information.</p> <p>For the purposes of this Guide, any references to financial statements include statements prepared by public entities that include both financial and non-financial information.</p>
<p>Key audit partner</p> <p><i>The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions.</i></p>	<p>For the purposes of this Guide, a “key audit partner” will be the engagement partner or director (the Appointed Auditor), a second partner(s) or director(s), the engagement quality reviewer, and, possibly, other audit partners. Specialists such as tax or information systems specialists and other technical experts are generally not key audit partners.</p>

Term	Auditor-General's interpretation
<p>Reasonable and informed third party test</p> <p><i>The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.</i></p> <p><i>These terms are described in paragraph R120.5 A4</i></p>	<p>For the purposes of this Guide, the general application of the reasonable and informed third party test is discussed in paragraphs AG R120.5 A6.1 and AG R120.5 A6.2.</p>
<p>Review client</p> <p><i>An entity in respect of which a firm conducts a review engagement.</i></p>	<p>The term “client” is frequently used in standards regulating assurance engagements and refers to the entity or person subject to assurance procedures. However, it is recognised that the work carried out by assurance practitioners, and the resulting reports are intended for users who have no role in the management or governance of the entity. In the context of the Auditor-General, this is Parliament and the citizens of New Zealand.</p>

## Effective date

### Auditor-General's requirement

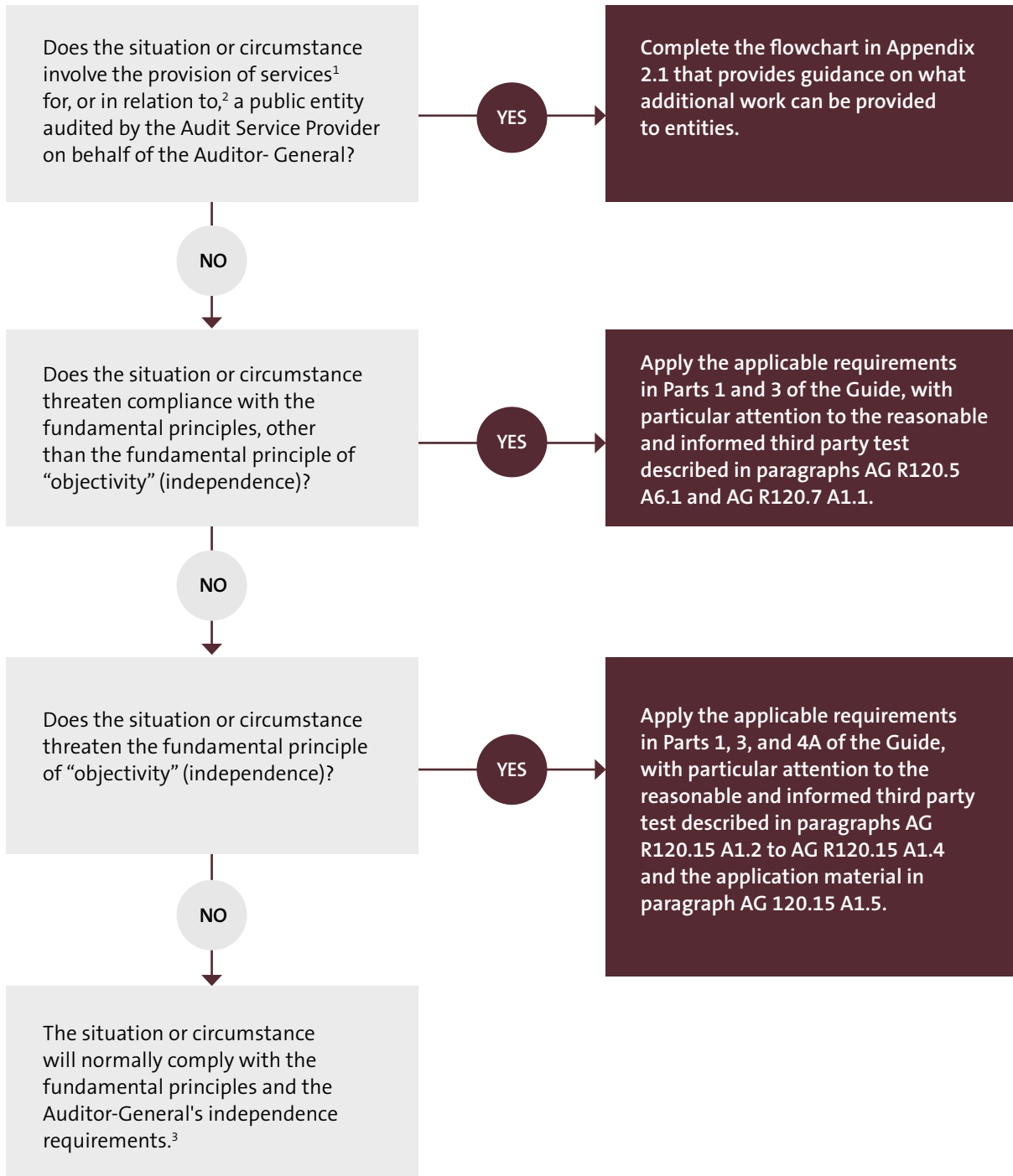
#### Effective date

The Auditor-General and those who carry out work on their behalf shall comply with the Auditor-General's Code from 1 April 2023. Compliance with this Guide is required from 1 July 2024.

# Auditor-General's appendices

## Appendix 1

Flowchart to assist in determining whether a situation or circumstance complies with the fundamental principles and the Auditor-General's independence requirements in the Guide



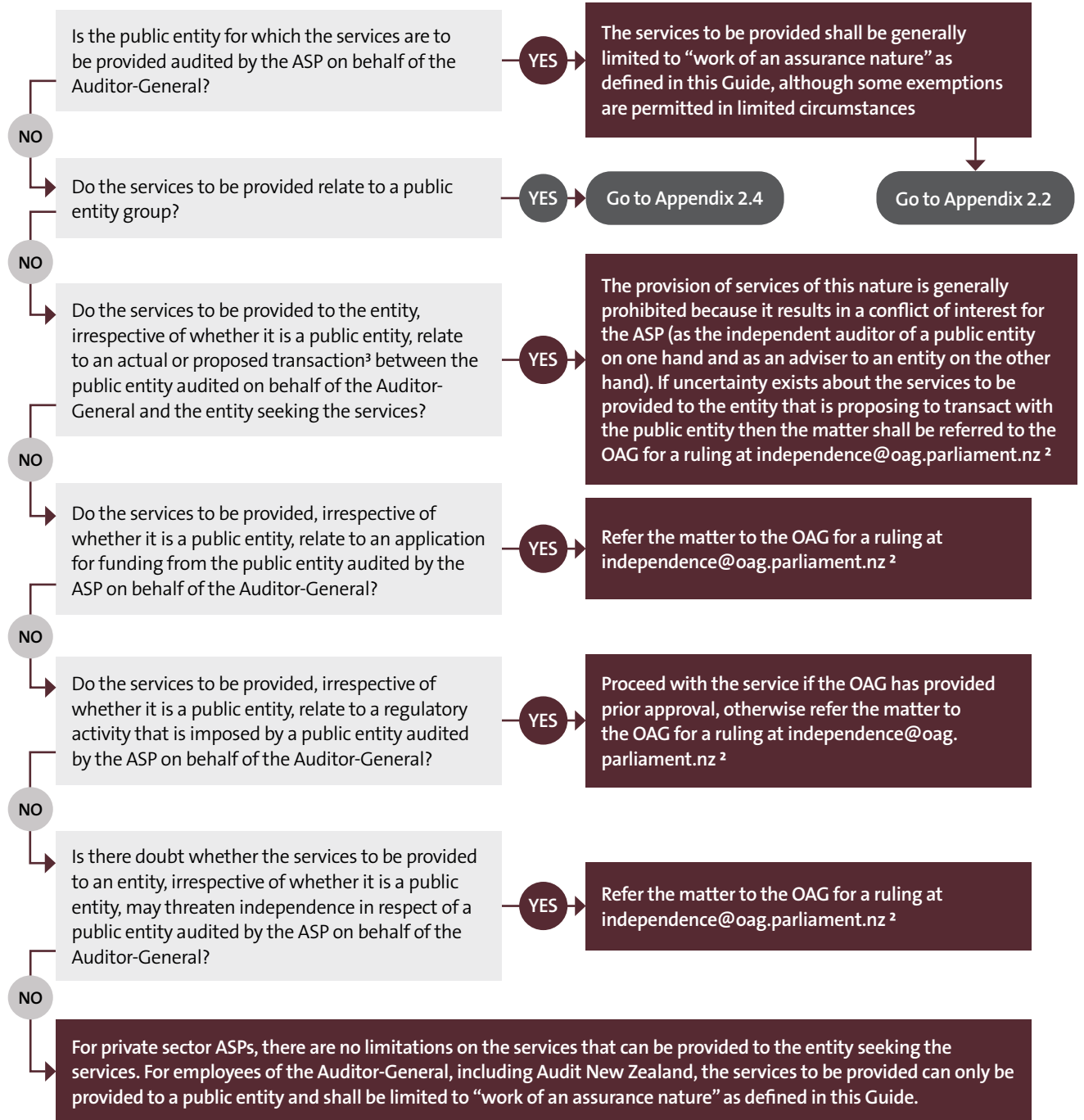
1 In the context of this decision tree, "services" consist of "work of an assurance nature" as defined in this Guide (see the flowchart in Appendix 2.3) and all services other than "work of an assurance nature" as defined in (a) above.

2 Please note that the "services" may be requested by an entity other than the public entity audited by the Audit Service Provider on behalf of the Auditor-General. There is a possibility that those "services" may threaten the Audit Service Provider's independence in relation to the public entity audited on behalf of the Auditor-General.

3 If there is any uncertainty, refer the matter to the OAG for a ruling (independence@oag.parliament.nz).

**Appendix 2.1**

**Flowchart to assist in determining what services<sup>1</sup> can be provided to entities**



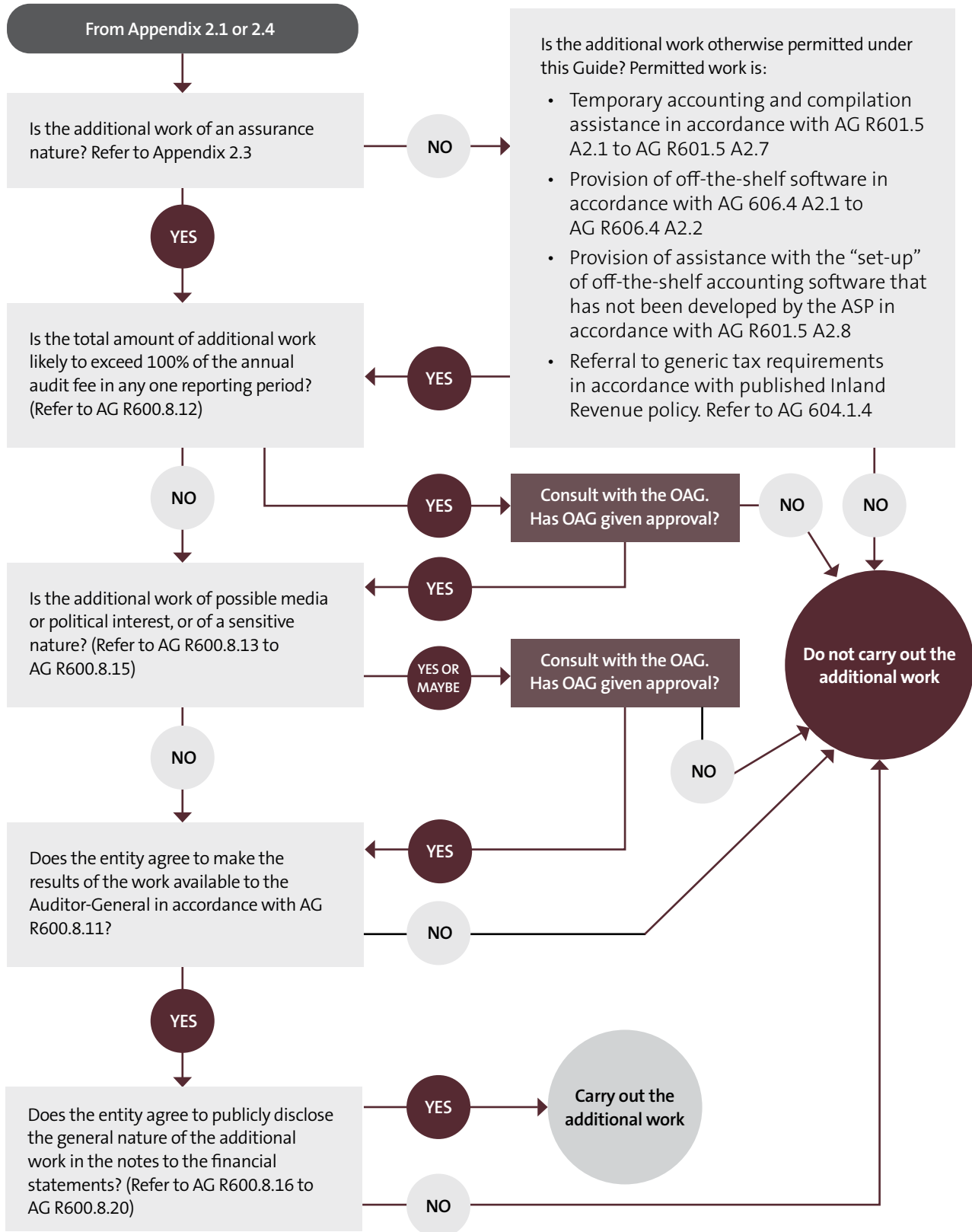
1 In the context of this decision tree, “services” consist of  
 a) “work of an assurance nature” as defined in this Guide (see the flowchart in Appendix 2.3) and  
 b) all services other than “work of an assurance nature” as defined in (a) above.

2 In referring the matter to the OAG, please support your recommendation with an analysis of the situation that is based on:  
 a) Parts 1, 3 and 4A of this Guide; and  
 b) The application of the reasonable and informed third party test described in paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the application material in paragraph AG 120.15 A1.5.

3 For the purposes of this assessment a transaction is a process where a willing seller and a willing buyer enter into negotiation to agree on the terms of the transaction by way of a contract. This differs from a situation where a party applies for funding on terms that are predetermined by a public entity and where the power to provide funding rests entirely with the public entity.

**Appendix 2.2**

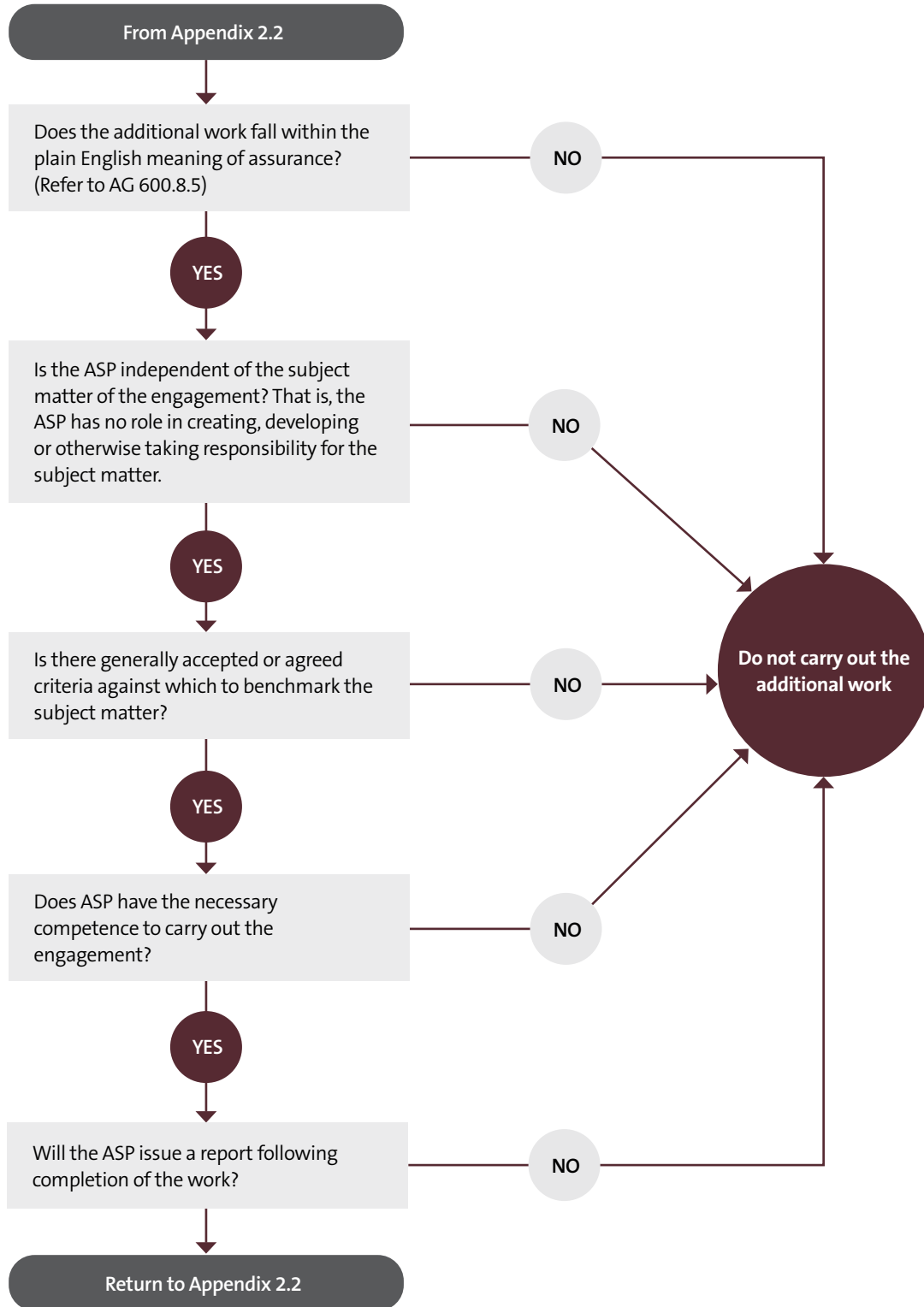
**Flowchart to assist in determining whether additional work can be accepted (including “work of an assurance nature”)**





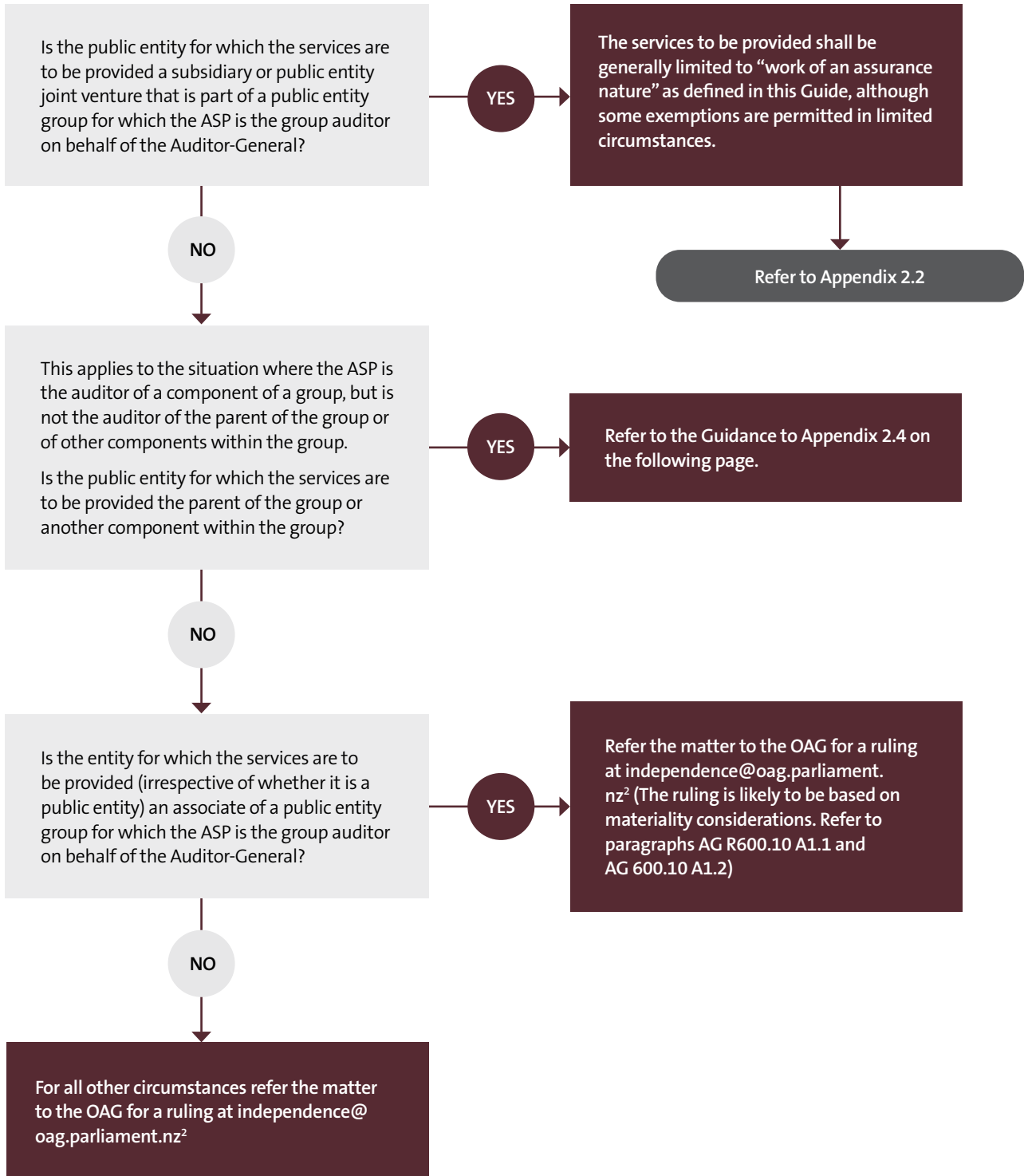
**Appendix 2.3**

**Flowchart to assist in determining whether additional work is of an assurance nature**



**Appendix 2.4**

**Flowchart to assist in determining what services<sup>1</sup> can be provided in relation to a public entity group**



1 In the context of this decision tree “services” consist of:  
 a) “Work of an assurance nature” as defined in this Guide (refer to flowchart in Appendix 2.3); and  
 b) All services other than “work of an assurance nature” as defined in (a) above.

2 In referring the matter to the OAG, please support your recommendation with an analysis of the situation that is based on:  
 a) Parts 1, 3 and 4A of this Guide; and  
 b) The application of the reasonable and informed third party test described in paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the application material in paragraph AG 120.15 A1.5.

## Guidance to Appendix 2.4: Where the Audit Service Provider is the auditor of a component of a group, but is not the auditor of the parent or of other components within the group

1. For the purposes of the Auditor-General's Code of Ethics and this Guide a public entity group is defined under the applicable financial reporting standards (or their successors) being:
  - PBE IPSAS 35 (PS): *Consolidated Financial Statements (Public Sector)*; or
  - NZ IFRS 10: *Consolidated Financial Statements*.

### Engagements within a group

2. The Audit Service Provider (ASP) is *permitted* to carry out:
  - “Work of an assurance nature” (as described in Appendix 2.3); and/or
  - Other engagements that are permitted by this Guide. Namely:
    - Temporary accounting and compilation assistance in accordance with AG R601.5 A2.1 to AG R601.5 A2.7.
    - Provision of assistance with the “set-up” of off-the-shelf accounting software that has not been developed by the ASP in accordance with AG 601.5 A2.8.
    - Referral to generic tax requirements in accordance with published Inland Revenue policy. Refer to AG 604.1.4.
    - Provision of off-the-shelf accounting software in accordance with AG 606.4 A2.1 and AG R606.4 A2.2.
  - Work that has no direct or indirect relationship to the entity audited by the ASP on behalf of the Auditor-General, subject to the considerations in paragraph 4 below.

This permission is given subject to the requirement to consult with the OAG if the additional work is of possible media or political interest or is of a sensitive nature. Refer to AG R600.8.13 to AG R600.8.15.

3. From an “independence of mind” perspective there are many engagements that an ASP could carry out for the parent of a group or for another component within the group that would not impact on the independence of the ASP in its capacity as the auditor of a component of the group. However, some of these engagements may not be appropriate from an “independence in appearance” perspective when the Auditor-General is the auditor of the group.
4. Other than for the permitted engagements in paragraph 2 above, Appointed Auditors are requested to consult with the OAG (using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address) when the ASP intends to carry out work for an entity within a group that is not audited by the ASP on behalf of the Auditor-General. When making an assessment as to whether the work should be accepted the OAG will take a number of matters into account, including:

*Governance considerations.* If the ASP is the auditor of a public entity within a public entity group (public entity A) then the ASP's ability to carry out other work for another public entity in the group that the ASP does not audit (public entity B) is enhanced if public entity B has a governing body (and management) that is completely different and separate from public entity A.

*Nature of the engagement.* The nature of the engagement will be influential to the assessment made by the OAG. For example:

- Engagements where the ASP assumes a management responsibility are unlikely to be permitted. This is because the Auditor-General is the auditor of the group;

- Engagements involving the design and/or implementation of systems, processes or procedures need to be assessed in terms of whether the engagement may have implications for the wider group, including the public entities within the group that are audited by the ASP;
  - Engagements that impact on the core activities of the public entity group may not satisfy “independence in appearance” given that the Auditor-General is the auditor of the group;
  - Engagements of a strategic nature that have an indirect relationship to the entity in the group that is audited by the ASP are unlikely to be permitted. For example, advice to the parent of a group that is dependent on internal restructuring within the group that includes the entity audited by the ASP is unlikely to be permitted.
5. The requirement to consult with the OAG may be relaxed based on experience. For example, certain types of engagements may be pre-approved without the need to consult.

## Application to the financial statements of the government

6. The purpose of the financial statements of the government (the FSG) is primarily to provide the financial surplus or deficit for the financial year and the net worth of the government at the end of the financial year, based on financial statements prepared in accordance with generally accepted accounting practice. The only common feature of the entities that comprise the FSG is that they are controlled, to a greater or lesser extent, by the government.
7. From an audit independence perspective, the threats to the independence of the Auditor-General that emerge from ASPs providing services to entities that comprise the FSG, are greatly reduced when compared to the entities that make up a traditional group that are directly controlled by a single governing body and where the objectives of the group are tightly specified in legislation and regulation, or by a constitution or an equivalent document. If the services are “work of an assurance nature”, as defined in this Guide, such services can be carried out without recourse to the OAG.
8. ASPs are authorised to provide services to entities within the FSG group, other than to those entities that the ASP audits on behalf of the Auditor-General, without prior consultation with the OAG unless the services present a direct or indirect threat to the independence of the ASP or the Auditor-General in respect of the entity that the ASP audits on behalf of the Auditor-General. In assessing the threat to independence, the ASP should apply the considerations in paragraphs AG R120.15 A1.2 to AG R120.15 A1.4 and the application material in paragraph AG 120.15 A1.5.
9. If doubt exists whether the services threaten independence the ASP shall consult with the OAG using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address).

## Engagements outside a group

10. In the public sector there are often strong relationships between public entities that could be interpreted as a controlling relationship but that do not amount to control for financial reporting purposes.
11. An example is the relationship between school boards of trustees and the Ministry of Education. Under PBE IPSAS 35 (PS), or its successor standards, and this Guide the Ministry of Education is not the parent of school boards of trustees. As result it would be unlikely that an ASP of a school board of trustees would be precluded from engaging with the Ministry of Education unless the engagement might present a conflict with the school audit. Accordingly, the Appointed Auditor of the school is not required to consult with the OAG in this situation unless a conflict might arise.
12. In the event of a possible conflict the Appointed Auditor shall consult with the OAG using the [Independence@oag.parliament.nz](mailto:Independence@oag.parliament.nz) email address.

**Appendix 3**

**Example end-of-audit report to the OAG that reconciles fees for other work disclosed in the entity’s financial statements with the other work fees disclosed to the OAG**

APPOINTED AUDITORS SHALL ENSURE THAT THEY PROVIDE EXPLANATIONS FOR ANY VARIANCES BETWEEN SECTION “A” OF THIS DOCUMENT AND THE TOTALS THAT ARE RECORDED IN SECTIONS “B” AND “C”

APPOINTED AUDITORS MAY COMPLETE AND UPLOAD THIS REPORT IN THE OAG PORTAL WHEN THERE IS A DIFFERENCE BETWEEN THE TOTAL FEES EXPECTED TO BE CHARGED TO THE ENTITY AND THE FEES THAT HAVE BEEN RECORDED IN THE ENTITY’S FINANCIAL STATEMENTS. IF THIS IS NOT USED APPOINTED AUDITORS SHOULD USE A SIMILAR REPORT.

**A – VALUE OF AUDIT AND OTHER SERVICES RECOGNISED IN THE [XX JUNE 20XX] FINANCIAL STATEMENTS OF [ENTITY NAME]**

Audit of financial statements	\$
Work of assurance nature	\$
Other services permitted under this Guide	\$
<b>Total other services</b>	<b>\$</b>

**B – INFORMATION ABOUT WORK OF AN ASSURANCE NATURE CARRIED OUT**

Description	Fee	On behalf of the OAG	Partner	Service type
	Include only the fees billed and unbilled for the period covered by the annual audit	Select either “yes”, if engagement performed on behalf of the OAG or “no” if performed in the name of the ASP	Name the Partner that was responsible for the other work engagement	Enter the type of Other work carried out using OAG Portal types
Assurance engagement 1 [description]	\$			
Assurance engagement 2 [description]	\$			
<b>Total work of an assurance nature</b>	<b>\$</b>			
<b>Explanation for the variance to the financial statements</b>				

**C – INFORMATION ABOUT OTHER SERVICES PERMITTED UNDER THIS GUIDE**

Description	Fee	On behalf of the OAG	Partner	Service type
	Include only the fees billed and unbilled for the period covered by the annual audit	Select either “yes”, if engagement performed on behalf of the OAG or “no” if performed in the name of the ASP	Name the Partner that was responsible for the other work engagement	Enter the type of Other work carried out using OAG Portal types
Other services under this Guide [description]	\$			
<b>Total other services</b>	<b>\$</b>			
<b>Explanation for the variance to the financial statements</b>				